



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item**

**8**

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**DATE:** November 30, 2009  
**MEMO TO:** Members of the IPSASB  
**FROM:** Joy Keenan  
**SUBJECT:** Service Concession Arrangements

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**OBJECTIVE OF THIS SESSION**

To **approve** an Exposure Draft (ED), “Service Concession Arrangements”

**AGENDA MATERIAL**

8.1 Exposure Draft ED XX, “Service Concession Arrangements”

**BACKGROUND**

1. In March 2008, the IPSASB issued a Consultation Paper (CP), “Accounting and Financial Reporting for Service Concession Arrangements.” Thirty-three (33) responses were received. The responses were considered at the October 2008 and February 2009 IPSASB meetings.
2. At the Toronto meeting in September 2009, the IPSASB agreed that the scope of the proposed IPSAS should be consistent with that of Interpretation 12 of the IASB’s International Financial Reporting Interpretations Committee (IFRIC 12), “Service Concession Arrangements.” This would affect the criteria for recognition of the asset as well as the types of asset to which the proposed ED would apply.
3. The IPSASB appointed a Task Force consisting of Peter Batten, David Bean and Ian Carruthers to assist staff in developing an ED for this meeting. The Task Force thanks Ian for making available the services of Paul Mason, Technical Manager – Local Government Accounting. The Task Force thanks Paul for his valuable technical contributions to the development of the proposed ED.
4. The Task Force met twice via teleconference and has reviewed several drafts of the proposed ED out-of-session. The proposed ED reflects the discussions at the meetings and the comments and revisions of the Task Force.

**OVERALL SUMMARY**

5. In developing the proposed ED, the focus was on the main accounting issue—grantor recognition of the SCA asset, and the related liability – the part which is a direct mirror of the operator accounting. Within the Task Force, there was some

debate as to whether the additional accounting issues (revenues and expenses) needed to be addressed in detail (see discussion of scope below).

6. IFRIC 12 does not contain disclosure requirements. However, IFRIC 12 interacts with Interpretation 29, “Service Concessions Arrangements: Disclosures” of the Standing Interpretations Committee (SIC-29), which sets out required disclosures for SCAs. The disclosure requirements in the proposed ED are drawn from SIC-29 (see discussion of disclosure below).
7. The Application Guidance is drawn from IFRIC 12 Application Guidance.
8. The Implementation Guidance is drawn from Information Note 1 and Information Note 2 of IFRIC 12, with very minor changes to reference to IPSASs rather than IFRSs.
9. Illustrative Examples 1-4 are adapted from the examples in IFRIC 12 to deal with the grantor’s accounting issues for the same set of facts and circumstances as used in IFRIC 12. Example 3 from IFRIC 12 was not used because the minimum revenue guarantee in that example was unlikely to result in any cash flows from the grantor, or to require recognition of a liability.
10. The main source for additional guidance provided on specific accounting issues is adapted from the March 2008 Consultation Paper (CP), “Accounting and Financial Reporting for Service Concession Arrangements.” The source of certain material in the proposed ED is shown in Appendix 3 to this paper.

## **KEY ISSUES**

11. The Task Force has identified the following main issues on which it requires the IPSASB’s direction:
  - Scope
  - Accounting Issue 1: Treatment of service and maintenance expenses when the compensation is not in the form of cash outflows (pre-determined payments)
  - Accounting Issue 2: Treatment of revenue from reduction in performance obligation
  - Accounting Issue 3: Accounting for the obligation
  - Disclosure requirements
  - Transitional provisions
  - Illustrative examples

## **Scope**

12. The proposed ED focuses on the grantor accounting for SCAs within the scope. In particular, it identifies when the grantor should recognize an SCA asset (and the related liability), and how to account for the asset, liability, revenues and expenses that relate to the SCA at initial recognition and subsequently.

13. It does not provide references to which other standards should be consulted when one or more of the asset recognition criteria are not met. The Task Force believes sufficient guidance is provided in the tables in the Implementation Guidance for arrangements that are outside the scope of the proposed ED, and accordingly has decided not to include additional references to relevant IPSASs within the body of the proposed ED.
14. Paragraph 8 of IFRIC 12 excludes from its scope “infrastructure that was held and recognized as property, plant and equipment by the operator before entering the service arrangement. The derecognition requirements of IFRSs (set out in IAS 16) apply to such infrastructure.” The proposed ED includes the operator’s existing assets on the basis that such assets, if derecognized by the operator, would be recognized as SCA assets by the grantor if they meet the recognition criteria in the proposed ED.
15. Assets of the grantor that are used in an SCA are required to be assessed against the recognition criteria—if the criteria are met, the asset is not recognized again by the grantor; however, the grantor reclassifies the asset to an SCA asset for financial reporting purposes. If the recognition criteria in this proposed Standard are not met, the grantor derecognizes the asset in accordance with IPSAS 17.
16. In undertaking to develop the proposed ED, the Task Force was mindful of the IPSASB’s direction to “mirror” IFRIC 12. IFRIC 12 is mirrored on the areas where there is a clear “read-across” to IFRIC 12—the scope of the arrangements addressed and the applicable assets are the same, as are the control criteria for asset recognition.
17. IFRIC 12 also addresses recognition and initial and subsequent measurement of financial and intangible assets, and substantial but irregular maintenance costs for which the operator is compensated (revenue and expense items). The proposed ED addresses accounting issues that are the counterparts of the specific operator accounting issues addressed in IFRIC 12. The proposed ED addresses, for the grantor, the recognition and initial and subsequent measurement of the financial and performance liabilities that correspond to the operator’s financial and intangible assets in IFRIC 12, as noted in the chart at paragraph 21 below.
18. Some members of the Task Force believe that guidance is required to address certain recognition and measurement issues arising from the grantor’s recognition of an SCA asset and a liability in sufficient detail to promote consistent application (the specific accounting issues are discussed below). Given the complexities that can arise in SCAs, it is necessary to provide as much definitive guidance as possible on certain recognition and measurement issues arising from the grantor’s recognition of an SCA asset and a liability in the proposed ED, or with sufficient guidance linking to other IPSASs to indicate how it applies to SCAs, to provide constituents with as much help as possible on the public-sector-specific issues. Guidance on revenue recognition arising from performance liabilities is provided because IPSAS 9, “Revenue from Exchange Transactions” does not specifically address long-lived and complex arrangements such as SCAs.

- Guidance on determining the finance charge related to financial liabilities is also not addressed in relation to SCAs in existing IPSASs. A concern is that, if this additional guidance is not provided, the accounting for SCAs by grantors after initial recognition of the SCA asset and related liability may be inconsistent.
19. The other view on the Task Force is this additional guidance is unnecessary because:
    - (a) The issues related to performance obligations already exist—they are not unique to SCAs; and
    - (b) The guidance provided may be too prescriptive (i.e., rules-based) as authoritative material and may be better considered as Implementation Guidance (i.e., non-authoritative guidance within the proposed ED).
  20. It is noted that this project is problematic as it does not fit neatly into either the “convergence” category or the public-sector specific category of IPSASB projects. Consequently, after much discussion and consideration of both points of view, the Task Force has been unable to reach a consensus on whether the detailed guidance provided in the proposed ED on these other accounting issues should be included in the body of the ED or in Implementation Guidance. A decision was taken to present the material in the proposed ED, rather than in Implementation Guidance, to allow the IPSASB to see the text of the guidance and to determine whether it is necessary to address the grantor’s accounting issues related to the accounting issues addressed in IFRIC 12. A specific question has been included in the “Matters for Comment” of the proposed ED.
  21. To assist Members in assessing whether IFRIC 12 is mirrored, the chart below summarizes the content of the guidance in the proposed ED as compared with IFRIC 12. Any additional accounting issues arising from the grantor accounting are shown in the column on the far right. The proposed accounting treatment of these issues is illustrated in the Illustrative Examples in the proposed ED.

<b>Operator (IFRIC 12)</b>	<b>Grantor (proposed ED)</b>	<b>Comments</b>
Scope (paragraphs 4–9)	<ul style="list-style-type: none"> <li>• Scope (paragraphs 6–9 and 11–13)</li> </ul>	
Operator’s rights over infrastructure (paragraph 11)	<ul style="list-style-type: none"> <li>• SCA asset and related liability (paragraph 14 – last part)</li> </ul>	Fair value of contract revenue is the exchange fair value of the SCA asset at the inception of the SCA
Contract revenue/costs (paragraphs 12–21)	Service and maintenance costs (paragraph 66)	
Financial asset (paragraphs 23–25)	<ul style="list-style-type: none"> <li>• SCA asset (paragraphs 11–33)</li> <li>• Financial liability (paragraphs 36, 39–46)</li> </ul>	Predetermined payments are allocated among liability, finance charge and service expense elements
Intangible asset (e.g., right to charge users) (paragraph 26)	<ul style="list-style-type: none"> <li>• SCA asset (paragraphs 11–33)</li> <li>• Performance obligation</li> </ul>	As performance obligation is reduced, revenue is recognized by the grantor

<b>Operator (IFRIC 12)</b>	<b>Grantor (proposed ED)</b>	<b>Comments</b>
	(paragraphs 36, 47–49, 55–65)	
Guarantee by the grantor to the operator (Example 3)	N/A – contingent liability under IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”	
Contractual obligations to replace parts of the infrastructure at regular intervals to maintain a specified level of serviceability (Examples 1–3)	<ul style="list-style-type: none"> <li>Recognize as separate component of the SCA asset based on experience/SCA terms and conditions (and related liability)</li> </ul> OR <ul style="list-style-type: none"> <li>Expense evenly over the term of the SCA by operator (Examples 1-4)</li> </ul>	Grantor may recognize and depreciate separately if recognition criteria in IPSAS 17 are met Otherwise, any reimbursement by the grantor to the operator for such replacements is accounted for as an expense
Items provided to the operator by the grantor (another revenue-generating asset provided to the operator) (paragraph 27)	Derecognition of asset by the grantor (if the grantor no longer controls the asset) (paragraph 17)	

**Question:**

Do you agree with the scope of material addressed in the proposed ED? Consider, in particular, whether it fulfills the IPSASB’s direction in September 2009 to “mirror” IFRIC 12.

22. In developing the examples, the Task Force has identified the following significant accounting issues on which it is seeking the IPSASB’s direction.

**Accounting Issue 1: Treatment of service and maintenance costs when the compensation is not cash outflows (pre-determined payments) by the grantor (See Appendix 2 to this paper for the alternative scenarios to those presented in Agenda Paper 8.1)**

23. When the operator is compensated through a series of predetermined payments, part of the payment pertains to a service component. In this case, the service cost is considered to be part of the payment, whether the payments are separable or non-separable. The operator recognizes the costs as an expense (but not as an asset). The operator also recognizes revenue in respect of the work undertaken. When the operator’s revenue arises because it is compensated through the grantor’s series of predetermined payments, the grantor recognizes a corresponding expense over the period of the SCA.

24. Paragraph 66 of the proposed ED states, “The service element of an SCA shall be recognized evenly over the term of the service concession arrangement and accounted for as an expense in accordance with IPSAS 1.” Although this is the alternative presented in the proposed ED, the Task Force does not have a consensus on this issue.
25. The Task Force has identified two alternatives for recognition of the service expense when the grantor makes a series of predetermined payments to the operator:
- (a) Recognize all of these service charges evenly over the term of the SCA. This alternative recognizes that the service provided by the operator occurs evenly over the term of the SCA. In the examples, the estimated cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized evenly over the term of the arrangement, because it is assumed the operator is providing access to a road of a specified condition evenly over the term of the arrangement, and the timing of any resurfacing is uncertain. As resurfacing is required when the road has deteriorated below a specified condition, resurfacing may occur once, more than once or not at all during the term of the arrangement. This uncertainty affects the operator’s costs, but not the grantor’s; the grantor is paying an agreed amount to gain access to a road of at least the specified condition for the term of the SCA. One member of the Task Force believes this treatment conflicts with IPSAS.
  - (b) Recognize significant one-time maintenance costs that does not meet the recognition criteria in IPSAS 17 as they are incurred (i.e., a significant amount of repairs and maintenance is involved, but not to the extent that part of the asset is replaced. This alternative recognizes the service charges of CU12 in years 3–10 and the resurfacing payment of CU110 in year 8 (See Example 4 Alternative Version 1 in Appendix 2 for an illustration of the mechanics of this alternative).
26. The Task Force agreed that when the operator is compensated in whole or in part by being granted the right to charge users of the SCA asset, or being granted another revenue-generating asset, the grantor should not recognize the service costs.

**Questions:**

- Do you agree that service and maintenance expenses should be recognized evenly over the term of the SCA (alternative (a))? Consider whether this assumption is appropriate in all cases, or whether it is specific to the examples provided in the proposed ED.
- Do you agree that no service and maintenance expense should be recognized for the portion of the compensation represented by granting the operator the right to charge users of the SCA asset or granting the operator another revenue-generating asset?
- Does the wording of the proposed ED (paragraphs 39 and 66 and the Basis for

Conclusions) make it clear that service expenses only arise only arise when the grantor makes cash outflows (predetermined payments to the operator) that reimburse the operator for supplying the service?

**Accounting Issue 2: Treatment of increased revenue related to additional performance obligation for road surface (See Appendix 2 to this paper for the alternative scenarios to those presented in Agenda Paper 8.1)**

27. In accordance with IPSAS 17, “Property, Plant and Equipment,” an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of an asset when that cost is incurred if the recognition criteria are met. Road resurfacing (the example used in IFRIC 12) is an example provided in IPSAS 17.24 of this circumstance. If the SCA asset component is recognized, there is a related performance obligation and revenue recognition as the performance obligation is reduced.
28. In Examples 1–3, the cost of the road recognized in year 3 includes both base and surface components. The initially constructed and recognized road surface recognized would be fully depreciated at the end of year 8, so it would not need to be derecognized prior to recognizing the resurfacing component in year 8. When the resurfacing occurs in year 8, it is recognized as a separate component of the SCA asset (i.e., added to the depreciated cost of the SCA asset in year 8 and depreciated over 6 years, the estimated life of surface layers). If the resurfacing is not recognized as a new component of the SCA asset, it would be recognized as increased expenses in year 8. Some Task Force members note that recognition and depreciation of the initial surface as a separate component of the SCA asset (and subsequently, the new surface), best complies with IPSAS 17.
29. One member of the Task Force points out that recognizing the road surface at the beginning of year 3 and in year 8 appears to double count the surface component. However, as noted, the initial surface is fully depreciated before the new surface is capitalized, so there is no double counting. If the initial surface is not fully depreciated, any remaining balance is derecognized under IPSAS 17 before the new surface is recognized.
30. A member also notes that the amount of the surface component initially recognized could be considered a right to resurfacing (an intangible asset). This member also points out that this is not a SCA exclusive issue, but an IPSAS 17 issue or an intangible assets issue.
31. The Task Force member also notes that the examples have made the initial recognition of an SCA asset overly complex. In practice, what governments are going to do is value the original asset and not attempt to value any replacements requirements, including those made at the end of agreement to bring the SCA assets back to a “specified condition.” For example, if an entity constructs a building and as part of the contract the builder agreed to replace the roof in three years, the same issue is faced when the asset is initially recognized. It is noted that

- Example 4 is intended to illustrate the case when the IPSAS 17 criteria for recognition of separate components are not met.
32. Based on the examples provided in the proposed ED, recognizing the replaced surface component in year 8 necessarily leads to an increase in the performance obligation at that time, which in turn means an increase in annual revenue that is recognized as the obligation is reduced. The IPSASB's views are sought on when this increased revenue should be recognized.
33. Alternative recognition periods identified by the Task Force are:
- (a) Recognize revenue evenly over years 3–10 (8 years) – This alternative would recognize the revenue evenly over the term of the SCA on the basis that the performance obligation is reduced as access is provided to the same SCA asset, evenly over the term of the SCA. The service potential of the road has not changed as a result of the resurfacing. This is the Task Force's preferred alternative. (See Example 3 in the proposed ED for an illustration of the mechanics of this alternative).
  - (b) Recognize revenue in years 9–10 (after resurfacing is complete) – This alternative would recognize revenue from the time when the new asset component is recognized until the end of the SCA on the basis that the obligation is not recognized until the related asset component is recognized. The revenue is earned only from that time until the end of the SCA (the period over which the grantor provides the operator access to the SCA asset). Alternative versions of Examples 2 and 3 that illustrate this treatment are in Appendix 2 to this paper. This may be a preferred alternative when, instead of the resurfacing, an additional lane is added, thus resulting in an additional service potential only from year 9. (See Example 3, Alternative Version 1 in Appendix 2 to this paper for an illustration of the mechanics of this alternative).

**Questions:**

- Do you agree with the Illustrative Examples in the proposed ED that would recognize the initially constructed surface and fully depreciate it over the expected life, and then recognize a new surface (resurfacing) when it is constructed?
- Do you agree that when the grantor recognizes a separate component of the SCA asset for the new surface (i.e., year 8 in the examples), an additional performance obligation also needs to be recognized at the same time?
- Do you agree that the revenue from the performance obligation should be recognized evenly over the term of the SCA (alternative a)?

**Accounting Issue 3: Accounting for the obligation (See Appendix 2 to this paper for the alternative scenarios to those presented in Agenda Paper 8.1)**

34. The proposed ED does not require all of the grantor's obligations, including inflows to the grantor (e.g., the SCA asset and any upfront or predetermined series



of payments) to be measured at their present value at the commencement of the arrangement.

35. The Task Force has considered the following alternatives in developing the examples:
- (a) The performance obligation is recognized evenly over years 3–10. (See Example 4 in the proposed ED); and
  - (b) The obligation is recognized as a liability as incurred (see Example 4 Version 2 in Appendix 2 to this paper for an illustration of the mechanics of this alternative).
36. The Task Force has not come to a view on the appropriate basis for recognizing the obligation. However, it was noted that the UK public sector is considering this issue at the moment, and a variety of approaches have been proposed—generally around even recognition (especially if amounts are not material) and recognition as incurred.
37. The proposed ED will need to recommend a specific treatment, so the Task Force requires the IPSASB’s direction on this issue in terms of requirements and guidance required for the position taken.

**Question:**

**Do you agree with the proposed accounting treatment for obligations (see alternative (a) above)?**

**Disclosure requirements**

38. IFRIC 12 does not contain specific disclosure requirements. Disclosure requirements for SCAs are set out in SIC-29, “Service Concession Arrangements: Disclosures.” SIC-29 is intended to be considered together with IFRIC 12. SIC 29 covers both operator and grantor disclosures.
39. The Task Force does not have consensus on whether to include the disclosure requirements from SIC-29. Some members believe SIC 29 requirements should be included in the proposed ED to ensure the public sector standard is complete, while a member notes that IFRIC 12 does not include disclosure requirements. The disclosure requirements from paragraph 6 of SIC-29 were included in the proposed ED to give the IPSASB the opportunity to decide on whether they should be included in the ED. They have been modified slightly to focus on the grantor, as shown in Appendix 1.

**Question:**

**Do you agree with the proposed disclosure requirements for the grantor?**

### **Transitional Provisions**

40. The proposed ED requires retrospective application consistent with paragraph 24(b) of IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors: and with IFRIC 12. Additionally, on transition from an accrual basis of accounting to IPSASs, requirements would include derecognition of all assets that do not meet the recognition criteria and recognition of all SCA assets that meet the criteria for recognition in accordance with the proposed ED at the date of transition.

#### **Question:**

**Do you agree with the proposed transitional provisions and the explanations provided in the Basis for Conclusions?**

### **Illustrative Examples**

41. Illustrative Examples 1-4 are intended to illustrate the requirements and guidance in the proposed ED. As noted, they are adapted from the examples in IFRIC 12, using the chart in paragraph 21 above. As noted previously, Appendix 2 shows alternative versions of the examples to illustrate the alternative treatments for certain of the accounting issues identified in this paper.
42. The examples start with a common set of facts and circumstances, and vary certain terms (e.g., whether the operator is compensated by a series of predetermined payments or by being granted the right to earn revenue from the SCA asset, or from another revenue-generating asset provided by the grantor, whether the road improvement is capitalized).
43. These examples are intended to cover the range of major accounting issues for the grantor identified in the proposed ED.
44. The Task Force considered the need for additional examples to those in IFRIC 12, but concluded that doing so would go beyond the objective of mirroring IFRIC 12 from the grantor’s point of view.
45. The Task Force also considered changing certain conditions from those used in the IFRIC 12 examples, but concluded that doing so could result in the need to change the implicit rate in the SCA, which is consistent with that used in the IFRIC 12 examples.

#### **Questions:**

- Do you agree with the content and format of the illustrative examples in the proposed ED?
- Which, if any, of the alternative examples in Appendix 2 to this paper should be included in the proposed ED (note that this depends on the IPSASB’s conclusions on Accounting Issues 1 and 2)?

**APPENDIX 1 – COMPARISON OF DISCLOSURE REQUIREMENTS IN THE PROPOSED ED WITH THOSE IN SIC-29**

SIC-29 Wording	Proposed ED Wording	Comments
All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. An operator and a grantor shall disclose the following in each period:	<b>All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of SCAs:</b>	Proposed ED applies only to the grantor. Reference to “operator” deleted.
(a) a description of the arrangement;	(a) <b>A description of the arrangement;</b>	No difference.
(b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g., the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);	(b) <b>Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g., the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);</b>	No difference.
(c) the nature and extent (e.g. quantity, time period or amount as appropriate) of:	c) <b>The nature and extent (e.g., quantity, time period or amount as appropriate) of:</b>	No difference.
<ul style="list-style-type: none"> <li>i. rights to use specified assets;</li> <li>ii. obligations to provide or rights to expect provision of services;</li> <li>iii. obligations to acquire or build items of property, plant and equipment;</li> <li>iv. obligations to deliver or rights to receive specified assets at the end of the concession period;</li> <li>v. renewal and terminations options;</li> <li>vi. other rights and obligations (e.g., major overhauls); and</li> </ul>	<ul style="list-style-type: none"> <li>(i) <b>Rights to use specified assets;</b></li> <li><b>Rights to expect the operator to provide specified services in relation to the SCA</b></li> <li>(ii) <b>SCA assets recognized as assets during the accounting period including existing assets of the grantor reclassified as SCA assets;</b></li> <li>(iii) <b>Rights to receive specified assets at the end of the SCA;</b></li> <li>(iv) <b>Renewal and termination options; and</b></li> </ul>	<p>Item i – no difference.</p> <p>Item 3 – reflects grantor’s viewpoint</p> <p>Item iii – from SIC-29.6 pertains only to the operator, which has to provide the SCA asset.</p> <p>Item iii of the proposed ED deals with the grantor’s SCA asset.</p> <p>Item iv – only rights to receive assets are relevant to the grantor.</p> <p>Item v – no difference.</p>

SIC-29 Wording	Proposed ED Wording	Comments
	<p>(v) <b>Other rights and obligations (e.g., right to a major overhaul of the SCA asset, financial and performance obligations);</b></p> <p>(vi) <b>Obligations to provide access to the operator to SCA assets or other revenue-generating assets;</b></p>	<p>Item vi – added examples to address financial and performance obligations that arise in SCAs from the grantor’s point of view.</p> <p>Item vii of the proposed ED pertains only to the grantor.</p>
(d) changes in the arrangement occurring during the period; and	(d) <b>Changes in the arrangement occurring during the accounting period; and</b>	No difference.
(e) how the service arrangement has been classified.	(e) <b>How the SCA has been classified.</b>	No difference.

**APPENDIX 2 — ALTERNATIVE EXAMPLES TO ILLUSTRATE VARIATIONS  
ON FACT PATTERNS IN THE PROPOSED ED**

**Example 2 (Alternative Version 1 — with recognition of new surface layers as a component in year 8 and revenue recognized in respect of the new component in years 9 and 10 only)**

**Table 2.1.1 Cash Flows**

No impact on cash flows

**Table 2.2.1 Statement of financial performance (currency units)**

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of performance obligation)	-	-	135	136	135	135	136	135	191	190	1,193
Depreciation – base layers	-	-	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layer	-	-	-	-	-	-	-	-	(19)	(18)	(37)
Total depreciation	-	-	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	-	-	78	78	78	78	78	78	133	133	734

**Table 2.3.1 Statement of financial position (currency units)**

Year	1	2	3	4	5	6	7	8	9	10
SCA asset – base layers	-	973	934	895	856	817	778	739	700	661
SCA asset – original surface layer	-	110	92	73	55	37	18	-	-	-
SCA asset – replacement surface layer	-	-	-	-	-	-	-	110	91	73
Total SCA asset	-	1,083	1,026	968	911	854	796	849	791	734
Cash	-	-	-	-	-	-	-	-	-	-
Performance obligation	-	(1,083)	(948)	(812)	(677)	(542)	(406)	(381)	(190)	-
Cumulative surplus/deficit	-	-	(78)	(156)	(234)	(312)	(390)	(468)	(601)	(734)
Net assets	-	-	-	-	-	-	-	-	-	-

**NOTES:**

1. The new component of the SCA asset (surface) is recognized in year 8.
2. Years 9–10 reflect depreciation on this additional component (Table 2.2.1) over the estimated useful life of surface layers (6 years).

3. The performance obligation in year 8 reflects an increase of CU110 ( $\text{CU406} - \text{CU135} + \text{CU110} = \text{CU381}$ ) to match the recognition of the new component of the SCA asset.
4. Revenue in respect of the additional performance obligation related to the new component of the SCA asset recognized in year 8, is recognized only after the new component has been increased (years 9 and 10).

**Example 3 (Alternative Version 1 — with recognition of new surface layers as a component in year 8 and revenue recognized in respect of the new component in years 9 and 10 only)**

**Table 3.1.1 Cash flows (currency units)**

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/ (outflow)	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

**Table 3.2.1 Statement of financial performance (currency units)**

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of performance obligation)	-	-	67	68	67	68	68	68	95	96	597
Service expense	-	-	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	-	-	(33)	(30)	(25)	(22)	(17)	(12)	(11)	(6)	(156)
Depreciation – base layers	-	-	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layer	-	-	-	-	-	-	-	-	(19)	(18)	(37)
Total depreciation	-	-	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	-	-	(29)	(26)	(21)	(17)	(13)	(7)	20	27	(663)

**NOTES:**

1. Depreciation in years 9–10 reflects the depreciation on the new SCA asset component (surface) recognized in year 8 over the estimated useful life of surface layers (6 years).
2. The revenue (reduction of the performance obligation) includes revenue from the additional performance obligation related to the new SCA asset component of CU55 recognized in year 8 (Table 3.3.1).
3. Revenue in respect of the additional performance obligation related to the new SCA asset component recognized in year 8, is recognized only after the SCA asset component has been recognized (years 9 and 10).

**Table 3.3.1** *Statement of financial position (currency units)*

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
SCA asset –base layers	-	973	934	895	856	817	778	739	700	661
SCA asset – original surface layer	-	110	92	73	55	37	18	-	-	-
SCA asset – replacement surface layer	-	-	-	-	-	-	-	110	91	73
Total SCA asset	-	1,083	1,026	968	911	854	796	849	791	734
Cash	-	-	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Performance obligation	-	(542)	(475)	(407)	(340)	(272)	(204)	(191)	(96)	-
Financial liability	-	(541)	(480)	(416)	(347)	(275)	(198)	(171)	(88)	-
Cumulative surplus/deficit	-	-	29	55	76	93	106	113	93	66
Net assets	-	-	-	-	-	-	-	-	-	-

**NOTES:**

1. The new component of the SCA asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 3.2.1).
2. The performance obligation in year 8 reflects an increase of CU55 (CU204 - CU68 + CU55 = CU191) to match the recognition of the new component of the SCA asset.
3. The financial liability in year 8 reflects an increase of CU55 (CU198 + CU12 + CU6 + CU55 - CU100 = CU171) to match the recognition of the new component of the SCA asset.



**Example 4 (Alternative Version 1 – Grantor makes a series of predetermined payments, and resurfacing is recognized as an additional expense as incurred)**

**Table 4.1.1 *Cash flows (currency units)***

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

**Table 4.2.1 *Statement of financial performance (currency units)***

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	-	-	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Additional service expense (resurfacing)	-	-	-	-	-	-	-	(110)	-	-	(110)
Finance charge	-	-	(66)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(311)
Depreciation	-	-	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(344)
Annual surplus/(deficit)	-	-	(121)	(114)	(106)	(98)	(89)	(190)	(77)	(66)	(861)

**Table 4.3.1 *Statement of financial position (currency units)***

Year	1	2	3	4	5	6	7	8	9	10
SCA asset	-	1,083	1,040	997	954	911	868	825	782	739
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	-	(1,083)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	-
Cumulative surplus/deficit	-	-	121	235	341	439	528	718	795	861
Net assets	-	-	-	-	-	-	-	-	-	-

**NOTE:**

An additional service expense in respect of the resurfacing is recognized in year 8 (when the resurfacing is undertaken by the operator).

### **APPENDIX 3 – SOURCE OF CERTAIN MATERIAL IN PROPOSED ED**

This chart summarizes the source of certain paragraphs in the proposed ED.

Note that the provisions of IFRIC 12 that address the asset recognition are in paragraphs 1-11. The remainder of IFRIC 12 addresses other operator accounting issues (see chart at paragraph 19 for the corresponding grantor accounting issues).

Where the paragraph has been drawn from other material, this is also noted.

<b>Proposed ED paragraph</b>	<b>Source</b>	<b>Comments</b>
IN3	IFRIC 12.1	
IN4	IFRIC 12.2	
1	IFRIC 12.4	
6	IFRIC 12.7	
6(c)	IFRIC 12.8	Required to be in proposed ED. The operator would derecognize these assets, so the grantor considers whether to recognize them.
7	IFRIC 12.6	
8	IFRIC 12.9	
9	IFRIC 12.6 second sentence	
10(a)	IPSAS 11.7	
10(d)	IFRIC 12.3	
10(e)	IFRIC 12.1	Added reference to permanent installations and non-current assets (public sector)
11	IFRIC 12.5	
12	IFRIC 12.6	
13	IFRIC 4.10	Modified for SCA (IFRIC 4 deals with leases)
16	IFRIC 12.2(c) IPSAS 6.37	Second sentence From third sentence on
12	Consultation Paper CP.134	
26	UK FReM 2009-10, 6.2.41	
57	CP.194	
58	CP.195	
67	IPSAS 17.59	
68	IPSAS 17.60	In part
80	IFRIC 12.29	
81	IFRIC 12.30	
Application Guidance	IFRIC 12 Application Guidance	Minor amendments
BC 8	IPSAS 11.7	
BC12 (second sentence)	CP.101 (second sentence)	
BC20-22	IFRIC 12.BC72-74	Minor amendments (IPSAS references)
BC23	Proposed IPSAS 31.BC13	See Agenda Paper 4.1
Implementation Guidance –	IFRIC 12 Information Note 1	Amendments for grantor point

<b>Proposed ED paragraph</b>	<b>Source</b>	<b>Comments</b>
Accounting Framework chart		of view
Implementation Guidance – References to IPSASs chart	IFRIC 12 Information Note 2	Minor amendments (IPSAS references)
Illustrative Examples	Adapted from IFRIC 12 Illustrative Examples fact patterns	Amendments for grantor point of view

Exposure Draft XX

December 2009

Comments are requested by April 15, 2010

*Proposed International Public Sector Accounting  
Standard*

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# Service Concession Arrangements

## **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, ED XX, “Service Concession Arrangements,” for publication in December 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 April 15, 2010. All comments will be considered a matter of public record. Comments should be addressed to:

The 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](mailto:EDComments@ifac.org) and  
[StephenieFox@ifac.org](mailto: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 XX)—SERVICE CONCESSION ARRANGMENTS**

**Acknowledgment**

This Exposure Draft of an International Public Sector Accounting Standard (IPSAS) sets out the accounting requirements of the grantor in a service concession arrangement. It is adapted from Interpretation 12 (IFRIC 12) of the International Financial Reporting Interpretations Committee, “Service Concession Arrangements,” which sets out the accounting requirements of the operator. IFRIC 12 is published by the International Accounting Standards Board (IASB). Extracts from IFRIC 12 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of the International Accounting Standards Committee Foundation (IASCF).

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## **Objective**

The objective of this Exposure Draft is to propose the accounting treatment for service concession arrangements by the grantor, a public sector entity.

## **Request for Comments**

The IPSASB invites comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

The IPSASB is particularly interested in your views on the following Specific Matters for Comment.

## **Specific Matters for Comment**

The IPSASB welcomes comments on whether you agree or disagree with:

- The recognition, measurement and disclosure principles applicable to the grantor for the assets, liabilities, revenues and expenses under service concession arrangements;
- The transitional provisions; and
- The examples and other guidance provided (in particular, whether any of the guidance is not considered fundamental to the accounting for SCAs and could be moved to non-authoritative guidance in the ED).

**IPSAS XX (ED XX)—SERVICE CONCESSION ARRANGEMENTS**

**CONTENTS**

	Paragraph
Introduction.....	IN1–IN16
Objective.....	1
Scope .....	2–9
Background.....	10
Recognition of an Asset .....	11–23
Measurement of the SCA Asset.....	25–33
Measurement at Recognition .....	25–32
Measurement after Recognition.....	33
Recognition and Measurement of a Liability—	
Compensation by the Grantor to the Operator.....	34–51
Recognition.....	34–37
Measurement at Recognition .....	38
Measurement after Recognition.....	39–51
Recognition and Measurement of other Liabilities—	
Compensation by the Operator to the Grantor.....	52–54
Recognition of Revenues .....	55–63
Recognition of Expenses.....	64–68
Guarantees and Contingencies.....	69–72
Disclosure .....	73–76
Transitional Provisions and Effective Date .....	77–78
Appendix A—Application Guidance	
Appendix B—Amendments to other IPSASs	
Basis for Conclusions	
Implementation Guidance	
Illustrative Examples	



International Public Sector Accounting Standard (IPSAS) XX (ED XX), “Service Concession Arrangements” is set out in paragraphs 1–81 and Appendices A and B. All the paragraphs have equal authority. IPSAS XX (ED XX) should be read in the context of its objective, the Basis for Conclusions, and the “Preface to International Public Sector Accounting Standards.” IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## **Introduction**

- IN1. IPSAS XX (ED XX) prescribes the accounting treatment for service concession arrangements by the grantor.
- IN2. This Standard requires the grantor to recognize assets used in service concession arrangements as service concession arrangement (SCA) assets when specified criteria are satisfied. The Standard also requires the grantor to recognize certain liabilities and expenses associated with the service concession arrangement. The Standard also specifies how to measure the carrying amount of SCA assets and liabilities, how to measure revenues and expenses arising from the service concession arrangement and it requires specified disclosures about SCA assets.

## **Scope**

- IN3. In many countries, assets used for public services—such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks and permanent installations for military and other operations, and non-current assets used for administrative purposes in delivering services to the public—have traditionally been constructed, operated, maintained and financed by the public sector.
- IN4. In some countries, governments have introduced various types of binding arrangements involving private sector participation in the development, financing, operation and/or maintenance of such assets. This Standard does not apply to all such types of arrangements. An arrangement within the scope of this Standard typically involves a private sector entity (the operator) constructing the asset used to provide the public service or upgrading an existing asset (e.g., by increasing its capacity) and operating and maintaining the asset for a specified period of time. The operator is compensated for its services over the period of the arrangement. The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.
- IN5. Arrangements that are not within the scope of this arrangement would be accounted for using other IPSASs, as appropriate to their specific terms and conditions.

## **Terminology**

- IN6. This Standard has the same meaning for “service concession arrangement” as Interpretation 12 of the International Financial Reporting Interpretations Committee of the International Accounting Standards Board (IASB), “Service Concession Arrangements” (IFRIC 12).
- IN7. This Standard is intended to apply to the same types of assets addressed in IFRIC 12. IFRIC 12 refers to the assets used in a service concession arrangement as “infrastructure.” This Standard refers to such assets as “service concession arrangement assets” or “SCA assets.”

- IN8. When an arrangement is determined to be within the scope of this Standard, the “grantor” is the entity that grants the service concession to the operator. The grantor is a public sector entity, including a governmental body.

**Accounting for the SCA asset and liability**

- IN9. The most critical accounting issue pertaining to SCAs is whether the grantor should recognize an SCA asset. IPSAS XX (ED XX) requires the grantor to recognize the asset as an SCA asset if:
- (a) The grantor controls or regulates what services the operator must provide with the asset, 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 asset at the end of the term of the arrangement.
- IN10. The Standard applies when an asset is used in a service concession arrangement for its entire useful life (whole-of-life asset) if criterion (a) is satisfied.
- IN11. If the arrangement involves an existing asset of the grantor, the Standard requires the grantor to determine whether the asset continues to be controlled. If it does, the asset continues to be accounted for in accordance with IPSAS 17, “Property, Plant and Equipment,” including assessment for impairment if there is a change in use of the asset that affects its future economic benefits or service potential. If the grantor ceases to control the asset, the derecognition principles in IPSAS 17 are followed.
- IN12. When the criteria for recognition of an SCA asset are satisfied, the Standard requires the asset to be accounted for in accordance with IPSAS 17.
- IN13. When the grantor recognizes the SCA asset, the Standard also requires the grantor to recognize a liability of equal amount. The Standard provides guidance to account for the liability, and for allocating any payments made to the operator between repayment of this liability, a finance charge and service elements.

**Other Accounting Issues**

- IN14. The Standard provides guidance on other accounting issues that might arise in an SCA, including revenues of the grantor and guarantees.
- IN15. This Standard addresses only the additional disclosures of SCAs to the disclosures required in other IPSASs that apply to certain components of an SCA. The disclosure requirements in this Standard are consistent with those in Interpretation 29 of the Standing Interpretations Committee of the IASB, “Service Concession Arrangements: Disclosures” (SIC-29).

**Transitional Provisions and Effective Date**

- IN16. The Standard requires SCAs to be accounted for retrospectively unless it is impracticable to do so.

## **Objective**

1. The objective of this Standard is to prescribe the accounting treatment for service concession arrangements by the grantor.

## **Scope**

2. **A grantor that 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 all public sector entities other than Government Business Enterprises.**
4. The “Preface to International Public Sector Accounting Standards” issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”
5. To be within the scope of this Standard, the service concession arrangement must be binding on the parties to the arrangement and oblige the private sector operator to provide the services related to the service concession arrangement asset to the public on behalf of the grantor. Arrangements that do not involve the transfer or creation of a service concession arrangement asset for the purpose of the arrangement fall outside the scope of this Standard, as do arrangements that do not involve the delivery of services to the public. For example, this Standard does not specify the accounting for binding arrangements that involve service and management components when the asset is not controlled by the grantor.
6. This Standard applies to the following assets, when they meet the criteria for recognition under this Standard in paragraph 11 (or paragraph 12 for whole-of-life assets):
  - (a) Assets that the operator constructs or acquires from a third party for the purpose of the service concession arrangement;
  - (b) Existing assets of the grantor to which the grantor gives the operator access for the purpose of the service concession arrangement; and
  - (c) Assets previously owned by the operator to which the operator gives the grantor access for the purpose of the service concession arrangement.
7. This Standard applies when an asset is used in a service concession arrangement for its entire useful life (whole-of-life asset) as provided for in paragraph 12.
8. This Standard does not specify the accounting by operators (see the relevant international or national accounting standard dealing with accounting for service concession arrangements by operators).
9. Paragraphs AG1–AG8 provide guidance on determining whether, and to what extent, service concession arrangements are within the scope of this Standard.

## **Background**

10. The following terms are used in this Standard:

- (a) A binding arrangement describes contracts and other arrangements that are binding on the parties to the arrangement and confers similar rights and obligations on the parties to it as if it were in the form of a contract.
- (b) A grantor is the entity that grants the service concession to the operator.
- (c) A service concession arrangement (SCA) typically involves a private sector entity (an operator) constructing the asset used to provide the public service or upgrading it (e.g., by increasing its capacity) and operating and maintaining that SCA asset for a specified period of time. The operator is compensated for its services over the period of the arrangement. The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes. The service concession arrangement is binding on the parties to the arrangement and obliges the operator to provide the services to the public on behalf of the public sector entity. Other common features are:
  - (i) The grantor is a public sector entity, including a governmental body;
  - (ii) The operator is responsible for at least some of the management of the SCA asset and related services and does not merely act as an agent on behalf of the grantor;
  - (iii) The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement; and
  - (iv) The operator is obliged to hand over the SCA asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.
- (d) A service concession arrangement asset (SCA asset) is an asset used to provide public services in a service concession arrangement that meets the criteria for recognition set out in paragraph 11. Examples of SCA assets are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and non-current assets used for administrative purposes in delivering services to the public.

#### **Recognition of an Asset**

- 11. The grantor shall recognize a service concession arrangement asset if:**
- (a) **The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price (see paragraph 16); and**
  - (b) **The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.**

12. **This Standard applies when an asset used in a service concession arrangement for its entire useful life (a “whole-of-life” asset) if the criterion in paragraph 11(a) is satisfied.**
13. **The assessment of whether an SCA asset should be recognized in accordance with paragraph 11 or paragraph 12 shall be made on the basis of all of the facts and circumstances of the arrangement.**
14. **The grantor shall account for the SCA asset recognized in accordance with paragraph 11 (or paragraph 12 for a whole-of-life asset) as a non-current asset in accordance with IPSAS 17 because the binding arrangement conveys the right to control the use of the SCA asset to the grantor.**
15. In accordance with IPSAS 17, the asset is recognized when:
  - (a) It is probable that future economic benefits associated with the asset will flow to the organization; and
  - (b) The cost of the asset can be measured reliably.

Paragraphs 22–23 provide guidance for cases when the SCA asset is constructed.
16. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity’s assets from those public goods that all entities have access to and benefit from. The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the arrangement. Governments and their agencies have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory powers do not constitute control for the purposes of financial reporting. In this Standard, the term “regulate” is not intended to convey the broad sense of the power of governments and government entities to regulate the behavior of entities by use of those sovereign or legislative powers. Rather, it is intended to be applied in the context of the specific terms of the SCA.

*Existing Asset of the Grantor*

17. **If the arrangement involves an existing asset of the grantor to which the grantor gives the operator access for the purpose of the SCA, the grantor shall apply the criteria in paragraph 11 to determine whether the grantor continues to control the asset. For whole-of-life assets, the grantor shall refer to paragraph 12.**
18. If the asset satisfies the criteria in paragraph 11 (or paragraph 12 for a whole-of-life asset), the grantor continues to account for the asset in accordance with IPSAS 17 and does not recognize an SCA asset in accordance with paragraph 11 (or paragraph 12 for a whole-of-life asset). The grantor would reclassify the asset as an SCA asset for reporting purposes and disclose the reclassification in accordance with paragraph 73. In applying the impairment tests in IPSAS 17, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential to the grantor. The grantor refers to IPSAS 21, “Impairment of Non-cash Generating Assets” or IPSAS 26, “Impairment of Cash-Generating Assets” as appropriate to

determine whether any of the indicators of impairment have been triggered under such circumstances.

19. If the asset no longer satisfies the criteria in paragraph 11 (or paragraph 12 for a whole-of-life asset), the grantor follows the derecognition principles in IPSAS 17. In such cases, the grantor also considers whether the arrangement should be accounted for in accordance with IPSAS 13, "Leases."
20. When the SCA involves upgrading an existing asset of the grantor such that the future economic benefits or service potential it will provide are increased, the upgrade is assessed to determine whether it meets the criteria in paragraph 11 (or paragraph 12 for a whole-of-life asset). If those criteria are satisfied, the upgrade is initially recognized and measured in accordance with this Standard.

*Existing Asset of the Operator*

21. **If the arrangement involves an existing asset of the operator to which the operator gives the grantor access for the purpose of the SCA, the grantor shall apply the criteria in paragraph 11 to determine whether it controls the asset. For whole-of-life assets, the grantor shall refer to paragraph 12. If the criteria are satisfied, the asset is recognized as an SCA asset and accounted for in accordance with this Standard.**

*Constructed Asset*

22. **A service concession asset that is constructed for the purpose of the SCA shall be recognized when the asset is placed into use, unless the recognition criteria in paragraphs 11–16 are met at an earlier time.**
23. Paragraph 15 sets out the criteria for when the grantor should recognize an SCA asset. The condition in paragraph 15(b) would usually be met if the grantor has reliable information about the operator's construction costs. The condition in paragraph 15 (a) normally requires that either the grantor bears construction risk, or the terms of the arrangement prohibit either party from cancelling it without significant penalty.

**Measurement of the SCA Asset**

**Measurement at Recognition**

24. Depending on the terms of the SCA, the grantor may compensate the operator for the SCA asset and service provision by any combination of the following:
  - (a) Making a series of payments to the operator (see paragraphs 25–27 for asset measurement and paragraphs 39–46 for liability measurement after recognition);
  - (b) Compensating the grantor by other means such as:
    - (i) Granting the operator the right to collect revenues directly from third-party users (see paragraphs 30–32 for asset measurement and paragraphs 47–48 for liability measurement after recognition); or

- (ii) Granting the operator access to another revenue-generating asset for its use (see paragraphs 30–32 for asset measurement and paragraph 49 for liability measurement after recognition).

*Separable Payments*

- 25. **When the asset and service elements of the series of payments by the grantor to the operator are separable, the grantor shall measure the SCA asset at the lower of fair value and the present value of the asset element of the payments.**
- 26. An arrangement may be separable in a variety of circumstances, including but not limited to the following:
  - (a) An element of a payment stream that varies according to the availability of the property itself and another element that varies according to usage or performance of certain services are identified;
  - (b) Different elements of the arrangement run for different periods or can be terminated separately. For example, an individual service element can be terminated without affecting the continuation of the rest of the arrangement; or
  - (c) Different elements of the arrangement can be renegotiated separately. For example, a service element is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.
- 27. IPSAS 17 requires initial measurement at cost, which is the cash price equivalent of the asset. When the amount of the scheduled payment specifies the amount allocated to the SCA asset element, the cash price equivalent is the present value of the asset element of the predetermined series of payments. However, if the present value is greater than fair value, the SCA asset is initially measured at its fair value.

*Inseparable Payments*

- 28. **When the asset and service elements of the predetermined series of payments by the grantor to the operator are not separable, the grantor shall initially measure the SCA asset at fair value using estimation techniques as set out in paragraph 29.**
- 29. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated into those for the SCA asset and those for other elements on the basis of their relative fair values. The fair value of the SCA asset includes only amounts related to the asset and excludes amounts for other elements in the arrangement (e.g., maintenance and operation services). In some cases, allocating the payments for the asset from payments for other elements in the arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to an agreement for a comparable asset that contains no other elements, or by estimating the payments for the other elements in the



arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

*Operator Receives Other Forms of Compensation*

30. **The grantor shall initially measure the SCA asset at fair value when, under the terms of the SCA, the operator:**
- (a) **Directly collects third-party usage fees; or**
  - (b) **Receives non-cash compensation from the grantor (e.g., granting the operator access to another revenue-generating asset for its use such as: a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients; or a private parking facility adjacent to a public facility).**
31. The types of transactions referred to in paragraph 30 are non-monetary exchange transactions. IPSAS 17 requires that, in such transactions, the asset be measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. IPSAS 17 provides guidance on these circumstances.
32. When the operator directly collects third-party usage fees or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the facility. The forms of compensation to the operator described in paragraph 30 are intended to compensate the operator both for the cost of the facility and for operating it during the term of the SCA. The grantor therefore needs to measure the asset element in a manner consistent with paragraph 28.

**Measurement after Recognition**

33. **After recognition as an SCA asset, the grantor shall measure the SCA asset in accordance with the provisions in IPSAS 17.**

**Recognition and Measurement of a Liability—Compensation by the Grantor to the Operator**

**Recognition of the Liability**

34. **When the grantor recognizes an SCA asset in accordance with paragraph 11 (or paragraph 12 for a whole-of-life asset), the grantor shall also recognize a liability. The grantor shall not recognize a liability for an existing asset of the grantor which the grantor continues to control in accordance with paragraph 17.**
35. **The nature of the liability recognized in accordance with paragraph 34 differs in each of the circumstances described in paragraph 24 according to its substance.**
36. When the grantor makes a predetermined series of payments to the operator, the liability is a financial liability as described in IPSAS XX (ED 37), “Financial Instruments: Presentation.” When the operator is compensated by being granted

the right to earn revenues from either the SCA asset or another asset provided by the grantor, the liability is a performance obligation.

37. The grantor may also compensate the operator by providing guarantees (e.g., of revenue or of debt incurred to construct the SCA asset). Such guarantees are accounted for in accordance with paragraphs 69–71.

### Measurement of the Liability

#### Initial Measurement

38. **The liability recognized under paragraph 34 shall be initially measured at the same amount as the asset measured under paragraphs 24–32.**

#### Subsequent Measurement

*Compensation is in the Form of a Predetermined Series of Payments to the Operator*

39. **The grantor shall allocate the payments made to the operator and account for them according to their substance as a reduction in the liability recognized in paragraph 34, a finance charge and service elements.**
40. When the grantor provides compensation to the operator for the cost of the SCA asset and service provision in the form of a predetermined series of payments, the element of the predetermined series of payments that pertains to the asset is recognized as a liability in accordance with paragraph 34. This liability does not include the finance charge and service elements. The finance charge is discussed in paragraphs 42–46. The service expense element is discussed in paragraph 66.
41. Where the grantor makes any payments to the operator in advance of the asset being recognized (see paragraph 15), the grantor accounts for those payments as prepayments.
42. **The finance charge in paragraph 39 shall be determined based on the operator's cost of capital specific to the SCA asset, if this is practicable to determine.**
43. **If the operator's cost of capital specific to the SCA asset is not practicable to determine, the rate implicit in the arrangement specific to the SCA asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, shall be used.**
44. Where sufficient information is not available, the rate used to determine the finance charge 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:
- (a) The present value of the payments;
  - (b) The assumed fair value of the asset; and
  - (c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.

45. 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 grantor's incremental borrowing rate to determine the finance charge.
46. **The interest rate used to determine the finance charge shall not be subsequently changed unless the asset element or the whole of the arrangement is renegotiated.**

*Collection of Third-Party Revenue by the Operator*

47. When the grantor compensates the operator for the SCA asset and service provision by granting the operator the right to collect revenue directly from third-party users for use of the SCA asset (see paragraphs 30–32), the liability is a performance obligation as indicated in paragraph 36. The liability recognized under paragraph 34 is reduced as access to the SCA asset is provided to the operator, ordinarily over the term of the SCA. If the operator's collection of third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g., the term over which the grantor's future predetermined series of payments are reduced or eliminated). As the liability is reduced, revenue is recognized (see paragraph 54).
48. The grantor does not recognize revenue when the operator collects third-party revenues, unless the arrangement also contains revenue-sharing provisions (see paragraphs 60–61) or minimum-revenue guarantees (see paragraphs 69–71).

*Granting the Operator Access to another Revenue-Generating Asset for its Use*

49. When the grantor compensates the operator for the SCA asset and service by the provision of a revenue-generating asset to the operator, the liability recognized under paragraph 34 is reduced as access to the revenue-generating asset is provided to the operator. In such cases, the grantor considers the derecognition principles in IPSAS 17. If the grantor has allowed access to the revenue-generating asset for a nominal rental, another basis may be more appropriate for reducing the liability.

*Dividing the Arrangement*

50. If the operator is compensated for the SCA asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from either the SCA asset or from another revenue-generating asset, it is necessary to account separately for each element of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability element for the predetermined series of payments and a performance obligation for the right granted to the operator to earn revenue from the SCA asset or from another revenue-generating asset. The liability for each element of the SCA is recognized initially at the fair value of the consideration paid or payable.
51. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the arrangement and, when relevant, contract law. For example, a grantor may recognize both a financial liability and a performance

obligation related to a specific SCA. SCAs are rarely if ever the same; technical requirements vary by sector and by country. Furthermore, the terms of the arrangement may also depend on the specific features of the overall legal framework of the particular country. Contract laws, where they exist, may contain terms that do not have to be repeated in individual contracts.

**Recognition and Measurement of Other Liabilities—Compensation from the Operator to the Grantor**

52. **When the operator compensates the grantor for the right to use the SCA asset, the grantor recognizes a liability for the performance obligation related to the portion of the compensation received before it is earned.**
53. In some cases, the operator provides an upfront payment or a stream of payments to the grantor in addition to the SCA asset, for the right to collect the third-party revenues, as described in paragraphs 47–48, or for access to another revenue-generating asset, as described in paragraph 49. To the extent that a portion of the payments received from the operator is not earned in the accounting period, it is recognized as a performance obligation until the conditions for revenue recognition are satisfied.
54. When the conditions for revenue recognition are satisfied, the liability is reduced as the revenue is recognized in accordance with paragraph 55.

**Recognition and Measurement of Revenues**

55. **The grantor shall account for revenue from an SCA in accordance with IPSAS 9, “Revenue from Exchange Transactions.”**
56. The operator may compensate the grantor for access to the SCA asset by providing the grantor with a series of predetermined inflows of resources, including the following:
  - (a) Upfront payment or a stream of payments to the grantor (see paragraph 57–59);
  - (b) Revenue-sharing provisions (see paragraphs 60–61);
  - (c) Reduction in a predetermined series of payments the grantor is required to make to the operator (see paragraph 24); and
  - (d) Rent payments for providing the operator access to a revenue-generating asset (see paragraph 63).
57. When the operator provides an upfront payment or a stream of payments to the grantor for the right to use the asset over the term of the SCA, these payments are accounted for in accordance with IPSAS 9, which states that revenue is the gross inflow of economic benefits or service potential in the reporting period. The timing of the revenue recognition is determined by the terms and conditions of the SCA that specify the grantor’s obligation to provide the operator with access to the SCA asset.
58. However, given the varying nature of the types of property associated with SCAs, and the length of many of their terms, there may be more appropriate alternative

- methods for recognizing revenue associated with contractually-determined inflows, methods that better reflect the operator's economic consumption of their access to the underlying property and/or the time value of money. For example, an annuity method that applies a compounding interest factor that more evenly recognizes revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for an SCA with a term extending over several decades.
59. When an upfront payment is received from the operator, the revenue is recognized over the term over which the grantor will meet its performance obligation. When the operator is required to pay annual installments over the term of the SCA, or predetermined sums for specific years, the revenue is recognized in a way that best reflects the operator's economic consumption of their access to the underlying property and/or the time value of money.
60. For SCAs under which the operator will collect fees directly from third-party users of the underlying property, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognized on the same basis as the liability is reduced (see paragraph 47). In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue sharing as part of an SCA may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.
61. The grantor recognizes revenue generated from revenue-sharing provisions in SCAs as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" to determine when the contingent event has occurred.
62. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with non-cash consideration. Such revenue is recognized as the liability is reduced under paragraph 47.
63. When the operator pays a nominal rent for access to a revenue-generating asset as described in paragraph 49, the rental revenue is recognized as the access to that item is provided, based on the terms of the arrangement.

#### **Recognition and Measurement of Expenses**

64. **The finance charge determined under paragraph 39 shall be reported in accordance with IPSAS 1, "Presentation of Financial Statements."**
65. The finance charge related to the liability in an SCA is in substance interest on funds obtained by the operator to supply the SCA asset.
66. **The service element of an SCA determined under paragraph 39 shall be recognized evenly over the term of the service concession arrangement and accounted for as an expense in accordance with IPSAS 1.**

67. **When an SCA asset comprises various components, each component with a cost that is significant in relation to the total cost of the SCA asset shall be depreciated separately in accordance with IPSAS 17.**
68. SCA assets may comprise various components. For example, a road system may consist of pavements, formation, curbs and channels, footpaths, bridges and lighting components. In most cases, the grantor would be required to depreciate separately the components within a road system.

### **Guarantees and Contingencies**

69. SCAs may include various forms of financial guarantees (e.g., a guarantee, security or indemnity related to the debt incurred by the operator to finance construction of an SCA asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for short-falls).
70. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract. The grantor applies IPSAS XX (ED 38) to 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.
71. Guarantees and commitments that do not meet the definition of a financial guarantee contract in IPSAS XX (ED 38) are accounted for in accordance with IPSAS 19.
72. Contingent assets or liabilities may arise from disputes over the terms of the SCA. Such contingencies are accounted for in accordance with IPSAS 19.

### **Disclosure**

#### **General**

73. **All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of SCAs:**
- (a) **A description of the arrangement;**
  - (b) **Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g., the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);**
  - (c) **The nature and extent (e.g., quantity, time period or amount as appropriate) of:**
    - (i) **Rights to use specified assets;**
    - (ii) **Rights to expect the operator to provide specified services in relation to the SCA;**
    - (iii) **SCA assets recognized as assets during the accounting period, including existing assets of the grantor reclassified as SCA assets;**

- (iv) **Rights to receive specified assets at the end of the SCA;**
  - (v) **Renewal and termination options; and**
  - (vi) **Other rights and obligations (e.g., major overhaul of the SCA asset, financial and performance obligations );**
  - (vii) **Obligations to provide access to the operator to SCA assets or other revenue-generating assets;**
  - (d) **Changes in the arrangement occurring during the accounting period; and**
  - (e) **How the SCA has been classified.**
74. Certain disclosures relating to some SCAs are already addressed in existing IPSASs. Where the accounting for a particular component of an SCA is in another IPSAS, the grantor also follows the disclosure requirements of that IPSAS. This Standard addresses only the additional disclosures of SCAs.
75. IPSAS 1 requires finance costs to be presented separately in the statement of financial performance. The finance charge determined under paragraphs 42–46 is included in this financial statement item.
76. The disclosures required in accordance with paragraph 73 shall be provided individually for each material service concession arrangement or in aggregate for each class of SCAs. A class is a grouping of SCAs involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services).

#### **Transitional Provisions and Effective Date**

77. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after MM DD, YYYY.**
78. **Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 13, IPSAS 17, IPSAS 19 and IPSAS XX (ED 38) at the same time.**

#### **Transition**

79. **An entity's opening statement of financial position on adoption of this Standard shall:**
- (a) **Exclude all assets that do not meet the criteria for recognition in accordance with this Standard at the date of transition, and related financial statement items; and**
  - (b) **Include all SCA assets that meet the criteria for recognition in accordance with this Standard, and related financial statement items, at that date.**
80. Subject to paragraph 81, changes in accounting policies are accounted for in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors." IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so.

81. If, for any particular service concession arrangement, it is impracticable for a grantor to apply this Standard retrospectively at the start of the earliest period presented, it shall:
- (a) Recognize SCA assets and liabilities that existed at the start of the earliest period presented;
  - (b) Use the previous carrying amounts of those SCA assets and liabilities (however previously classified) as their carrying amounts as at that date; and
  - (c) Test SCA assets 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.



## **Appendix A**

### **Application Guidance**

*This Application Guidance is an integral part of IPSAS XX (ED XX).*

#### **Scope**

AG1. Paragraph 11 of this Standard specifies that an asset is within the scope of the Standard when the following conditions apply:

- (a) The grantor controls or regulates what services the operator must provide with the asset, 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 asset at the end of the term of the arrangement.

Paragraph 12 of the Standard also specifies that “whole-of-life” assets are within the scope of the Standard.

AG2. The control or regulation referred to in criterion (a) could be by a binding arrangement, including a contract or otherwise (such as through a third party regulator that regulates other entities that operate in the same industry or sector as 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.

AG3. 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 a third party regulator that regulates other entities that operate in the same industry or sector (e.g., hospitals, schools or universities) as the grantor, 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, an arrangement 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 satisfied.

AG4. 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 asset and give the grantor a continuing right of use throughout the period of the arrangement. The residual interest in the asset is the estimated current value of the asset as if it were already of the age and in the condition expected at the end of the period of the arrangement.

AG5. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 11(a) and any significant residual interest in the asset, the operator is only managing the asset on the grantor’s behalf—even though, in many cases, it may have wide managerial discretion.

AG6. The criteria in paragraphs 11(a) and (b) together identify when the asset, 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 an asset

- during the period of the arrangement (e.g., the top layer of a road or the roof of a building), the asset shall be considered as a whole. Thus condition (b) is satisfied for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.
- AG7. Sometimes the use of underlying property is partly regulated in the manner described in paragraph 11(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 to determine whether the condition set out in paragraph 11(a) is satisfied 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 11(a), the existence of ancillary activities does not detract from the grantor’s control of the underlying property.
- AG8. The operator may have a right to use the separable asset 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 shall be accounted for in accordance with IPSAS 13.

## Appendix B

### Amendments to Other IPSASs

#### IPSAS 5 “Borrowing Costs”

**Paragraph 6 is amended as follows:**

##### **Borrowing Costs**

6. Borrowing costs may include:
- (a) Interest on bank overdrafts and short-term and long-term borrowings;
  - (b) Amortization of discounts or premiums relating to borrowings;
  - (c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;
  - (d) Finance charges in respect of finance leases and service concession arrangement assets; and
  - (e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

#### IPSAS 13, “Leases”

**Paragraphs 25–27 are amended as follows:**

##### **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. 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. The entity determines whether the arrangement is a service concession arrangement, as defined in IPSAS XX (ED XX), “Service Concession Arrangements.”

26. Where an arrangement does not satisfy the criteria for recognition of a service concession asset in accordance with IPSAS XX (ED XX), “Service Concession Arrangements” and the 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 service concession arrangement as defined in IPSAS XX (ED XX) or a lease, as defined by this Standard, has arisen. 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, “Property, Plant and Equipment”**

**Paragraph 4 is amended as follows:**

4. This Standard applies to property, plant and equipment including:
- (a) Specialist military equipment; ~~and~~
  - (b) Infrastructure assets; ~~and~~
  - (c) Service concession arrangement assets after initial recognition and measurement (see IPSAS XX (ED XX)).

**A new paragraph is inserted after paragraph 107 as follows:**

- 107A. **IPSAS XX (ED XX), “Service Concession Arrangements” amended paragraph 4. An entity shall apply that amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies IPSAS XX (ED XX) for a period beginning before MM DD, YYYY, the amendments shall also be applied for that earlier period.**

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, IPSAS XX (ED XX).*

### **Objective**

BC1. In the absence of an International Public Sector Accounting Standard dealing with service concession arrangements (SCAs), public sector entities were directed, under IPSAS 1 to look to other international or national accounting standards. In many cases, they would follow Interpretation 12 of the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC 12), "Service Concession Arrangements." IFRIC 12 addresses accounting by the operator, and does not, therefore, provide guidance for the grantor. The IPSASB believes this Standard will promote consistency and comparability in how SCAs are reported by public sector entities.

### **Scope**

BC2. After considering the various types of arrangements involving public and private sector entities in the March 2008 Consultation Paper, "Accounting and Financial Reporting for Service Concession Arrangements," the IPSASB agreed that the scope of this Standard should be the complement of IFRIC 12. The rationale for this decision is that this would require both parties to the same arrangement to apply the same principles in determining whether the asset used in an SCA should be accounted for as an asset thus minimizing the possibility for an asset to be accounted for by both of the parties, or by neither party.

BC3. However, the IPSASB concluded that the Standard should provide Implementation Guidance on the relevant IPSASs that apply to arrangements outside the scope of the Standard. The Implementation Guidance contains a flowchart illustrating the application of this Standard as well as a table of references to relevant IPSASs for the other types of arrangements that are outside the scope of this Standard.

BC4. The IPSASB concluded that it was important to provide guidance on accounting for the liability recognized related to the SCA asset because the liability may consist of any combination of a financial liability (for a series of predetermined payments) or a performance obligation (when the operator receives a revenue-generating asset). Each of these liabilities results in specific accounting issues on which the IPSASB has provided guidance to facilitate consistent application of the Standard.

BC5. The IPSASB also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, "Revenue from Exchange Transactions" because of the unique features of some SCAs (e.g., revenue-sharing provisions, provision of a revenue-generating asset for nominal rent).

### **Terminology**

BC6. The IPSASB agreed that it was not necessary to provide definitions in this Standard. The IPSASB has instead provided guidance on certain of the terms used in this Standard. The main term in this Standard is "service concession

arrangement,” which is not defined in IFRIC 12. The guidance in IFRIC 12 on characteristics of service concession arrangements has been adapted for this Standard.

- BC7. The IPSASB agreed not to use the term “infrastructure” to refer to the asset used in an SCA, even though IFRIC 12 uses the term. The IPSASB noted that the term is used in IPSASs in ways that may not be fully compatible with this Standard. Further, the term has a prescribed meaning in some jurisdictions that differs from that used in IFRIC 12. To ensure clarity that the asset referred to is the one recognized on the basis of the criteria for recognition in this Standard, the asset in this Standard is referred to as the “service concession arrangement asset” or “SCA asset.” These terms are intended to cover the same types of assets as envisaged in IFRIC 12.
- BC8. The term “binding arrangement” has not been defined, but has been used in IPSASs to describe arrangements that are binding on the parties, but do not necessarily take the form of a documented contract, such as an arrangement between two government departments that do not have the power to contract. The IPSASB concluded that this term is required to address the circumstances addressed in this Standard, and has provided guidance in paragraph 10 on circumstances that give rise to binding arrangements, consistent with other IPSASs.

#### **Recognition of an SCA Asset and a Liability**

- BC9. The main accounting issue in SCAs is whether the grantor should recognize an SCA asset and a related liability.
- BC10. The IPSASB considered the merits of the control-based approach and the risks and rewards approach to assessing whether the grantor should recognize the asset. The risks and rewards approach focuses on the economic aspects of the terms and conditions in the arrangement. The IPSASB did not believe this focus to be appropriate for SCAs because SCA asset’s primary purpose is to provide service potential on behalf of the public sector entity, and not to provide economic benefits such as revenue generated by these assets from user fees. A control-based approach focuses on control over the service potential of the SCA asset.
- BC11. The IPSASB also questioned whether sufficiently objective criteria could be established for assessing risks and rewards in a risks and rewards approach to enable consistent results to be determined. In addition, weighting of various risks and rewards was seen to be problematic.
- BC12. The IPSASB also considered whether a rights and obligations approach was appropriate. Although such an approach could have conceptual merit, the Board believes that it would represent a paradigm shift in the accounting and financial reporting of assets and liabilities for public sector entities that could have implications beyond SCAs. Given the IPSASB’s decision to complement IFRIC 12, which uses a control-based approach, the IPSASB agreed that a rights and obligations approach was not appropriate for this Standard.
- BC13. The IPSASB concluded that a control-based approach was the most effective means to determine whether the grantor should recognize the asset. The IPSASB

- concluded that if a control-based approach is used, it should be consistent with IFRIC 12, for the same reasons cited in paragraph BC2. Accordingly, this Standard addresses only arrangements in which the grantor (a) controls or regulates the services provided by the operator, and (b) controls any significant residual interest in the SCA asset at the end of the term of the arrangement. The IPSASB concluded that it was important to stress that a service concession arrangement is a binding arrangement. Accordingly, the assessment of whether an SCA asset should be recognized is made on the basis of all of the facts and circumstances of the arrangement.
- BC14. When the grantor recognizes an SCA asset in accordance with this Standard, it must also recognize a liability of equal amount (increased for any cash received by the grantor and decreased by cash paid by the grantor). The liability reflects the grantor's obligation to compensate the operator for the asset. The IPSASB concluded that depending on the terms of the arrangement, the grantor might recognize any combination of a financial liability or a performance obligation.
- BC15. A financial liability arises in cases when the grantor is obligated to make a series of predetermined payments to the operator because the grantor has a contractual obligation to deliver cash or another financial asset to another entity (the operator). The IPSASB concluded further that when there is a series of predetermined payments, the payments should be allocated among amounts that reduce the liability, an imputed finance charge and charges for services provided by the operator under the SCA.
- BC16. The IPSASB concluded that a performance liability arises in cases when the grantor grants the operator the right to earn revenues, either from the SCA asset or from another asset because the grantor has received exchange consideration (i.e., an inflow of resources in the form of the SCA asset) in advance of its performance under the exchange (i.e., its obligation to provide the operator access to the SCA asset or another revenue-generating asset).
- BC17. The IPSASB considered whether the grantor should recognize the operating expenses in the circumstances described in paragraph BC16. The IPSASB noted that the performance obligation recognized relates solely to the SCA asset recognized. If the service expenses were recognized, the grantor would also have to recognize annually imputed revenue equal to the annual expense. The IPSASB did not believe this accounting would provide useful information, because revenue and an expense of equal amounts would be recognized annually. The IPSASB noted further that reliable information about the operator's expenses may not be available in any case. The IPSASB therefore concluded that the grantor should not recognize operating expenses associated with the SCA in the circumstances described in paragraph 16.

### **Operator Accounting**

- BC18. This Standard does not specify the accounting by operators, because it is addressed in IFRIC 12. In many cases the operator is a private enterprise, and IPSASs are not designed to apply to the private sector. Private enterprises follow

International Financial Reporting Standards (IFRSs). The operator may also be a Government Business Enterprise (GBE). GBEs are also required to follow IFRSs.

### **Accounting Issues Addressed in other IPSASs**

BC19. Because of the complexity of many SCA contracts, there may be additional accounting issues related to certain terms in the contract (e.g., revenues, expenses guarantees and contingencies). The IPSASB agreed that it was not necessary to repeat such existing guidance in this Standard. Accordingly, when an existing IPSAS specifies the accounting and reporting for an element of an SCA, that IPSAS is referred to in this Standard and no additional guidance is provided. However, the IPSASB noted some cases (e.g., revenue recognition), when the application of such IPSASs would be difficult given certain unique features in SCAs. To ensure consistent implementation of this Standard, the IPSASB provided specific guidance on how the principles in the other IPSAS would be applied.

### **Transitional Provisions**

BC20. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” states that an entity shall account for a change in accounting policy resulting from initial application of a Standard in accordance with any specific transitional provisions in that Standard. In the absence of any specific transitional provisions, the general requirements of IPSAS 3 apply. The general requirement in IPSAS 3 is that the changes should be accounted for retrospectively, except to the extent that retrospective application would be impracticable.

BC21. The IPSASB noted that there are two aspects to retrospective determination: reclassification and remeasurement. The IPSASB took the view that it will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in an operator’s balance sheet, but that retrospective remeasurement of service concession arrangement assets might not always be practicable.

BC22. The IPSASB noted that, when retrospective restatement is not practicable, IPSAS 3 requires prospective application from the earliest practicable date, which could be the start of the current period. Under prospective application, the grantor could be applying different accounting models to similar transactions, which the IPSASB decided would be inappropriate. The IPSASB regarded it as important that the correct accounting model should be consistently applied.

BC23. To facilitate the adoption of accrual-basis IPSASs, the Standard also provides a transitional provision to assist entities to apply the accrual basis of accounting for the first time. The Standard requires that when an entity adopts the accrual basis of accounting for the first time, its opening statement of financial position includes all SCA assets that meet the criteria for recognition, and related financial statement items, in accordance with this Standard at that date.





## Implementation Guidance

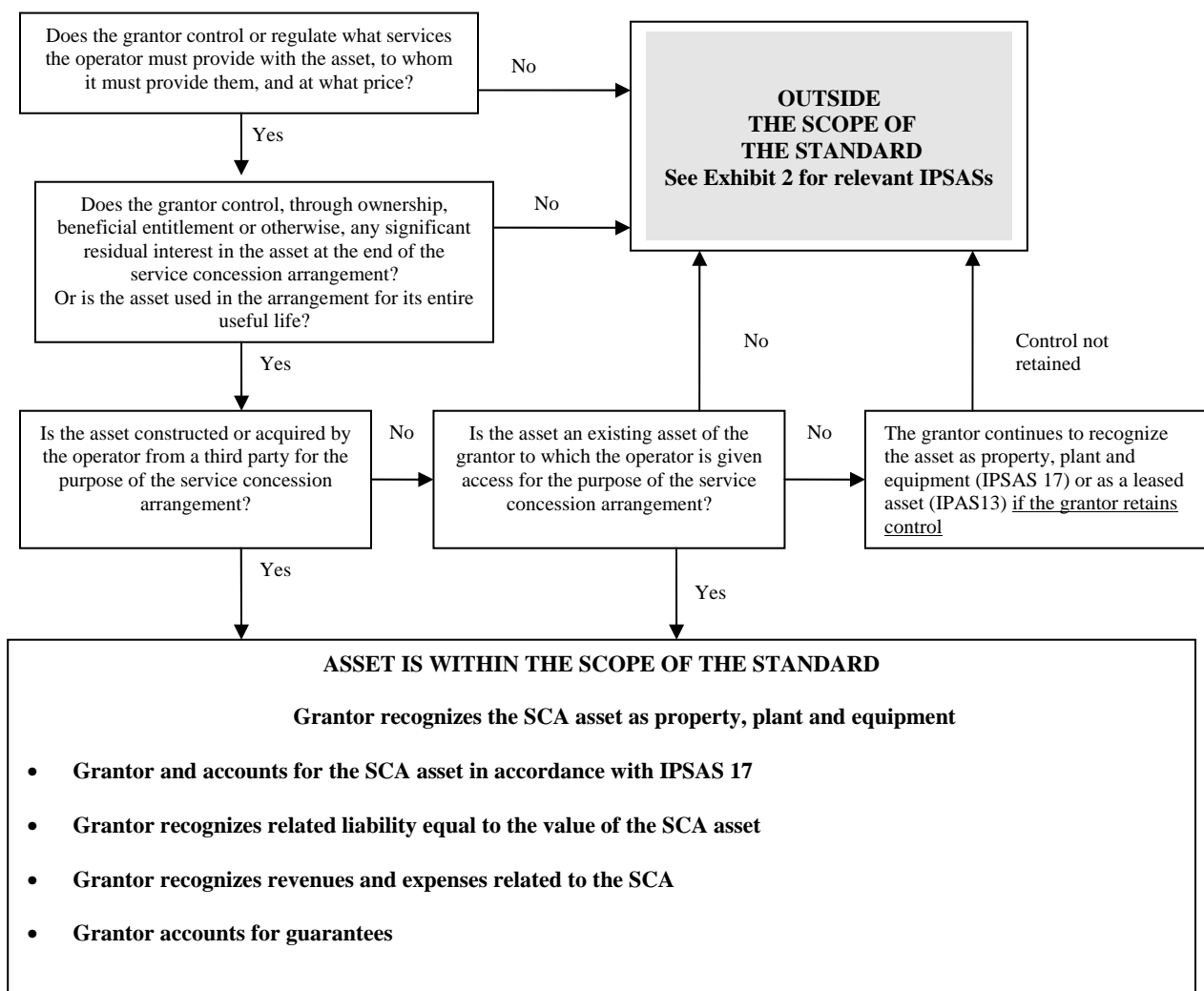
### Applicability of this Standard

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

The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS XX (ED XX).

### Accounting Framework for Service Concession Arrangements

The diagram below summarizes the accounting for service concession arrangements established by this Standard.



**References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service**

The table sets out the typical types of arrangements for private sector participation in the provision of public sector services 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 various types of arrangements.

Shaded text shows arrangements within the scope of this IPSAS.

	Lessee	Service provider			Owner	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	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 contract or licence)
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 13	IPSAS 1	This IPSAS/IPSAS 17		IPSAS 17 (derecognition) IPSAS 9 (revenue recognition)	

## **Illustrative Examples**

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

These examples deal with only four of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

### **Arrangement Terms (Common to All Four Examples)**

In these examples, monetary amounts are denominated in "currency units" (CU).

These terms are common to the four examples that follow:

- IE1. The terms of the arrangement require an operator to construct a road—completing construction within two years—and maintain and operate the road to a specified standard for eight years (i.e., years 3–10). The arrangement is within the scope of this Standard and the road meets the criteria for recognition of an SCA asset in paragraph 11.
- IE2. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the SCA asset or another revenue-generating asset granted to the operator by the grantor.
- IE3. In Examples 1–3, it is assumed that the road surface is a separate component of the SCA asset and meets the criteria for recognition under IPSAS 17, Property, Plant and Equipment." It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the SCA asset. The road surface is therefore recognized as a separate component of the initial fair value of the SCA asset and measured at the estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base, and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years.
- IE4. Recognition of the replacement component of the road surface as a separate component of the SCA asset in year 8 also results in an increase in the liability recognized by the grantor. Where the liability is a performance obligation, additional revenue in respect of this increase is recognized evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it would be appropriate to instead recognize revenue relevant to that improvement only once it has occurred.
- IE5. At the beginning of year 3, the total fair value of the road is CU1,083, comprised in Examples 1–3 of CU973 related to the construction of the base layers and

- CU110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with IPSAS 17). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.
- IE6. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore CU39 (973/25) for the base layers in Examples 1–3, and CU43 (CU1,083/25) for the entire road in Example 4. In Examples 1–3, the surface layers are depreciated over 6 years (years 3–8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is CU18 (CU110/6) in Examples 1–3. In Example 4, the full cost of the resurfacing is considered repairs and maintenance, and is recognized evenly over the term of the arrangement. There is no impairment in the value of the road over the term of the SCA.
- IE7. The operator's cost of capital is not practicable to determine. The rate implicit in the SCA specific to the asset is 6.18%.
- IE8. For the purpose of Examples 1–4, it is assumed that all cash flows take place at the end of the year.
- IE9. For the purpose of Examples 1–4, it is assumed that the time value of money is not significant. Paragraph 58 applies where the time value of money is significant.
- IE10. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the road to the grantor.
- IE11. The total compensation to the operator under each of the four examples is inclusive of each of the elements of the arrangement and reflects the fair values for each of the services, which are set out in Exhibit 1.
- IE12. The grantor's accounting policy for property, plant and equipment is to recognize such assets using the cost model specified in IPSAS 17.

**Exhibit 1 *Fair values of the elements of the arrangement* (currency units)**

<b>Contact Element</b>	<b>Fair Value</b>
Road – base layers	973
Road – surface layers	110
Total FV of road	1,083
Annual service element	12
Effective interest rate	6.18%

**Example 1: The Grantor makes a Predetermined Series of Payments to the Operator**

**Additional Terms**

IE13. The terms of the arrangement require the grantor to pay the operator CU200 per year in years 3–10 for making the road available to the public. The total consideration (payment of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

**Financial Statement Impact**

IE14. The grantor initially recognizes the SCA asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE15. The grantor initially recognizes a financial liability at fair value equal to the fair value of the asset in year 3 (CU1,083). Because the amount of the predetermined payment related to the service element is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE16. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of  $CU110/6 = CU18$ , beginning in year 9.

IE17. The compensation for maintenance and operating the road (CU12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognizes an expense annually.

IE18. The costs of services are accounted for in accordance with IPSAS 1.

**Overview of Cash Flows, Statement of Financial Performance and Statement of Financial Position**

IE19. The grantor's cash flows, statement of financial performance and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3.

**Table 1.1 Cash flows (currency units)**

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

**Table 1.2 Statement of financial performance (currency units)**

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	-	-	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	-	-	(66)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(311)
Depreciation – base layers	-	-	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layer	-	-	-	-	-	-	-	-	(19)	(18)	(37)
Total depreciation	-	-	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	-	-	(135)	(129)	(120)	(112)	(104)	(94)	(92)	(80)	(866)

**NOTES:**

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9-10 reflects the depreciation on the new SCA asset component (surface) recognized in year 8.

**Table 1.3 Statement of financial position (currency units)**

Year	1	2	3	4	5	6	7	8	9	10
SCA asset – base layers	-	973	934	895	856	817	778	739	700	661
SCA asset – original surface layer	-	110	92	73	55	37	18	-	-	-
SCA asset – replacement surface layer	-	-	-	-	-	-	-	110	91	73
Total SCA asset	-	1,083	1,026	968	911	854	796	849	791	734
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	-	(1,083)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	-
Cumulative surplus/deficit	-	-	135	264	384	496	600	694	786	866
Net assets	-	-	-	-	-	-	-	-	-	-

**NOTES:**

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to

be derecognized under IPSAS 17 before the new component of the SCA asset related to the resurfacing is recognized.

2. The new component of the SCA asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 to match the recognition of the new component of the SCA asset.

**Table 1.4 Movement in Financial Liability** (*currency units*)

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
Balance brought forward	-	-	1,083	961	832	695	550	396	343	177
Liability recognized along with initial SCA asset	-	1,083	-	-	-	-	-	-	-	-
Element of predetermined series of payments that reduces the liability	-	-	(122)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognized along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	-	1,083	961	832	695	550	396	343	177	-



## **Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll**

### **Additional Arrangement Terms**

IE20. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU200 in each of years 3–10. The total consideration (tolls of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1, and is intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

### **Financial Statement Impact**

- IE21. The grantor initially recognizes the SCA asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU57, comprised of CU39 for the base layers and CU18 for the surface layers).
- IE22. As consideration for the SCA asset, the grantor incurs a performance obligation to provide the operator with access to the asset by granting the operator the right to collect tolls of CU200 in years 3–10.
- IE23. The performance obligation is reduced over years 3–10, and the grantor recognizes revenue on that basis because the tolls are expected to be earned evenly over the term of the SCA.
- IE24. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the SCA. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of  $CU110/6 = CU18$ , beginning in year 9.
- IE25. The compensation for maintenance and operating the road (CU12) is included in the tolls the operator expects to earn over the term of the SCA. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash outflow. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

### **Overview of Cash Flows, Statement of Financial Performance and Statement of Financial Position**

IE26. The grantor's cash flows, statement of financial performance and statement of financial position over the duration of the arrangement will be as illustrated in Tables 2.1 to 2.3.

#### **Table 2.1 Cash flows (currency units)**

Because there are no payments made to the operator, there are no cash flow impacts for this example.

**Table 2.2 Statement of financial performance (currency units)**

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of performance obligation)	-	-	149	149	149	149	149	149	150	149	1,193
Depreciation – base layers	-	-	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layer	-	-	-	-	-	-	-	-	(19)	(18)	(37)
Depreciation – surface layers	-	-	(18)	(19)	(18)	(18)	(19)	(18)	(19)	(18)	(147)
Total depreciation	-	-	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	-	-	92	91	92	92	91	92	92	92	734

**NOTES:**

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new SCA asset component (surface) recognized in year 8.
3. The revenue (reduction of the performance obligation) includes revenue from the additional performance obligation (Table 2.3).
4. All revenue is recognized evenly over the term of the arrangement.

**Table 2.3 Statement of financial position (currency units)**

Year	1	2	3	4	5	6	7	8	9	10
SCA asset – base layers	-	973	934	895	856	817	778	739	700	661
SCA asset – original surface layer	-	110	92	73	55	37	18	-	-	-
SCA asset – replacement surface layer	-	-	-	-	-	-	-	110	91	73
Total SCA asset	-	1,083	1,026	968	911	854	796	849	791	734
Cash	-	-	-	-	-	-	-	-	-	-
Performance obligation	-	(1,083)	(934)	(785)	(636)	(487)	(338)	(299)	(149)	-
Cumulative surplus/deficit	-	-	(92)	(183)	(275)	(367)	(458)	(550)	(642)	(734)
Net assets	-	-	-	-	-	-	-	-	-	-

**NOTES:**

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized under IPSAS 17 before the new component of the SCA asset related to the resurfacing is recognized.
2. The new component of the SCA asset related to the resurfacing is recognized in year 8.
3. Years 9–10 reflect depreciation on this additional component (Table 2.2) over the estimated useful life of surface layers.

4. The performance obligation is increased in year 8 by CU110 (CU338-CU135+CU110 = CU299) to match the recognition of the new component of the SCA asset.

**Table 2.4 Movement in Performance Obligation** (currency units)

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
Balance brought forward	-	-	1,083	934	785	636	487	338	299	149
Liability recognized along with initial SCA asset	-	1,083	-	-	-	-	-	-	-	-
Revenue (reduction of performance obligation)	-	-	(149)	(149)	(149)	(149)	(149)	(149)	(150)	(149)
Liability recognized along with replacement surface layers	-	-	-	-	-	-	-	110	-	-
Balance carried forward	-	1,083	934	785	636	487	338	299	149	-

**Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road**

**Additional Arrangement Terms**

IE27. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU100 in each of years 3–10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of CU100 annually. The fair value of the right to collect tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).

**Financial Statement Impact**

IE28. The grantor initially recognizes the SCA asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU 57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE29. As consideration for the SCA asset, the grantor incurs a performance obligation (CU542) to provide the operator with access to the asset by granting the operator the right to collect tolls of CU100 in years 3–10.

IE30. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore in this arrangement it is necessary to divide the grantor's consideration to the operator into two parts—a performance obligation and a financial liability.

IE31. The performance obligation of CU100 is reduced over years 3–10, and the grantor recognizes revenue on the same basis because the tolls are expected to be earned evenly over the term of the SCA.

IE32. The grantor initially recognizes a financial liability at fair value equal to half of the fair value of the asset at the beginning of year 3 (CU541); the other half of the fair value of the asset at the beginning of year 3 is matched by the performance liability. Because the amount of the predetermined payments related to the service element is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE33. The operator is compensated for the road resurfacing (CU110) equally through the tolls the operator expects to earn over the term of the SCA and the series of predetermined payments (i.e., 50% from each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of  $CU110/6 = CU18$ , beginning in year 9.

IE34. The operator is compensated for maintenance and operating the road (CU12) equally through the tolls the operator expects to earn over the term of the SCA and the predetermined payment (i.e., 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognizes an expense annually for the portion related to the series of predetermined payments (CU6). There is no financial statement impact for the remaining CU6 of this service expense. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

IE35. The grantor's cash flows, statement of financial performance and statement of financial position over the duration of the arrangement will be as illustrated in Tables 3.1 to 3.3.

### **Overview of Cash Flows, Statement of Financial Performance and Statement of Financial Position**

**Table 3.1** *Cash flows (currency units)*

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>Total</b>
Predetermined series of payments	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/ (outflow)	-	-	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

**Table 3.2** *Statement of financial performance (currency units)*

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>Total</b>
Revenue (reduction of performance obligation)	-	-	74	75	74	75	75	75	75	74	597
Service expense	-	-	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	-	-	(33)	(30)	(25)	(22)	(17)	(12)	(11)	(6)	(156)
Depreciation – base layers	-	-	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	-	-	(18)	(19)	(18)	(18)	(19)	(18)	-	-	(110)
Depreciation – replacement surface layer	-	-	-	-	-	-	-	-	(19)	(18)	(37)
Total depreciation	-	-	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	-	-	(22)	(19)	(14)	(10)	(6)	-	-	5	(663)

#### **NOTES:**

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.

2. Depreciation in years 9–10 reflects the depreciation on the new SCA asset component (surface) recognized in year 8 over the estimated useful life of surface layers (6 years).
3. The revenue (reduction of the performance obligation) includes revenue from the additional performance obligation (Table 3.3).
4. All revenue is recognized evenly over the term of the arrangement.

**Table 3.3 Statement of financial position** (currency units)

Year	1	2	3	4	5	6	7	8	9	10
SCA asset – base layers	-	973	934	895	856	817	778	739	700	661
SCA asset – surface layer	-	110	92	73	55	37	18	-	-	-
SCA asset – replacement surface layer	-	-	-	-	-	-	-	110	91	73
Total SCA asset	-	1,083	1,026	968	911	854	796	849	791	734
Cash	-	-	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Performance obligation	-	(542)	(468)	(393)	(319)	(244)	(169)	(149)	(74)	-
Financial liability	-	(541)	(480)	(416)	(347)	(275)	(198)	(171)	(88)	-
Cumulative surplus/deficit	-	-	22	41	55	65	71	71	71	66
Net assets	-	-	-	-	-	-	-	-	-	-

**NOTES:**

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized under IPSAS 17 before the new component of the SCA asset related to the resurfacing is recognized.
2. The new component of the SCA asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 3.2).
3. The performance obligation in year 8 reflects an increase of CU55 (CU169 - CU75 + CU55 = CU149) to match the recognition of the new component of the SCA asset.
4. The financial liability in year 8 reflects an increase of CU55 (CU198 + CU12 + CU6 + CU55 - CU100 = CU 171) to match the recognition of the new component of the SCA asset.

**Table 3.4 Movement in Performance Obligation** (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	-	542	468	393	319	244	169	149	74
Liability recognized along with initial SCA asset	-	542	-	-	-	-	-	-	-	-
Revenue (reduction of performance obligation)	-	-	(74)	(75)	(74)	(75)	(75)	(75)	(75)	(74)
Liability recognized along with replacement surface layers	-	-	-	-	-	-	-	55	-	-
Balance carried forward	-	542	468	393	319	244	169	149	74	-

**Table 3.5 Movement in Financial Liability (currency units)**

<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
Balance brought forward	-	-	541	480	416	347	275	198	171	88
Liability recognized along with initial SCA asset	-	541	-	-	-	-	-	-	-	-
Element of predetermined series of payments that reduces the liability	-	-	(61)	(64)	(69)	(72)	(77)	(82)	(83)	(88)
Liability recognized along with replacement surface layers	-	-	-	-	-	-	-	55	-	-
Balance carried forward	-	541	480	416	347	275	198	171	88	-

**Example 4: The Grantor Makes a Predetermined Series of Payments to the Operator, but the Resurfacing Expenditure Does Not Meet the Criteria for Capitalization as an Asset**

**Additional Terms**

IE36. The terms of the arrangement require the grantor to pay the operator 200 currency units (CU200) per year in years 3–10 for making the road available to the public. The total consideration (payment of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110. The resurfacing does not meet the criteria for capitalization as an asset under IPSAS 17.

**Financial Statement Impact**

IE37. The grantor initially recognizes the SCA asset as property, plant and equipment at its fair value (CU1,083). Depreciation is taken annually (CU43).

IE38. The grantor initially recognizes a financial liability at fair value (equal to the value of the asset). Because the amount of the predetermined payment related to the service element is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE39. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however, as the resurfacing is not capitalized the grantor recognizes an increase in the annual service expense. The cost of the resurfacing is recognized evenly over the term of the arrangement, because the operator is providing access to a road of a specified condition evenly over the term of the arrangement, and the timing of any resurfacing is uncertain. As resurfacing is required when the road has deteriorated below a specified condition, resurfacing may occur once, more than once or not at all during the term of the arrangement. This uncertainty affects the operator's costs, but not the grantor's; the grantor is paying an agreed amount to gain access to a road of at least the specified condition.

IE40. The compensation for maintenance and operating the road (CU12) is included in the predetermined series of payments. There is no direct cash flow impact related to this service expense; however, the grantor recognizes an expense annually.

IE41. The costs of services and resurfacing are accounted for in accordance with IPSAS 1.



**Overview of Cash Flows, Statement of Financial Performance and Statement of Financial Position**

IE42. The grantor's cash flows, statement of financial performance and statement of financial position over the duration of the arrangement will be as illustrated in Tables 4.1 to 4.3.

**Table 4.1** *Cash flows (currency units)*

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	-	-	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

**Table 4.2** *Statement of financial performance (currency units)*

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	-	-	(26)	(26)	(26)	(25)	(26)	(26)	(26)	(25)	(206)
Finance charge	-	-	(66)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(311)
Depreciation	-	-	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(344)
Annual surplus/(deficit)	-	-	(135)	(128)	(120)	(111)	(103)	(94)	(91)	(79)	(861)

**Table 4.3** *Statement of financial position (currency units)*

Year	1	2	3	4	5	6	7	8	9	10
SCA asset	-	1,083	1,040	997	954	911	868	825	782	739
Cash	-	-	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	-	(1,083)	(975)	(860)	(737)	(605)	(465)	(316)	(164)	-
Cumulative surplus/deficit	-	-	135	263	383	494	597	691	782	861
Net assets	-	-	-	-	-	-	-	-	-	-

**NOTE:** The service charge in years 3–8 has been increased to recognize the cost of the expected resurfacing; this is recognized evenly over the term of the arrangement.

**Table 4.4** *Movement in Financial Liability (currency units)*

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	-	-	1,083	975	860	737	605	465	316	164
Liability recognized along with initial SCA asset	-	1,083	-	-	-	-	-	-	-	-
Element of predetermined series of payments that reduces the liability	-	-	(108)	(115)	(123)	(132)	(140)	(149)	(152)	(164)
Balance carried forward	-	1,083	975	860	737	605	465	316	164	-



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