

SERVICE CONCESSION ARRANGEMENTS – DRAFT ILLUSTRATIVE EXAMPLES

OBJECTIVE OF THIS PAPER

The objective of this paper is for the IPSASB to **consider** draft examples that illustrate the principles set out in proposed ED 43.

BACKGROUND

1. As indicated in agenda paper 5.0, proposed ED 43 is based on the scope of the March 2008 IPSASB Consultation Paper (CP), “Accounting and Financial Reporting for Service Concession Arrangements.” Accordingly, accounting issues that were not addressed or concluded on in the CP proposals are not addressed in the proposed ED or in the draft examples.
2. The draft examples were developed with the valuable assistance of Greg Driscoll, who was involved in drafting the CP. Certain of the examples were further developed from examples contained in the CP.
3. The draft examples are intended to illustrate how the main principles in the proposed ED would be applied in practice. Note that examples of when both conditions are not met have not been provided due to time constraints.
4. If the IPSASB agrees with the overall content of the examples, staff plans to add more detailed numerical elements in certain of the examples to better illustrate the various impacts of the principles on the grantor’s financial statements. These would be distributed along with the draft ED for the IPSASB’s comments as indicated in agenda paper 5.0.

DECISIONS REQUESTED

Members are asked to consider the examples in light of the principles in the proposed ED and provide direction to staff for further development of the examples. In doing so, it may be helpful to consider the following questions:

1. Do the examples address all key principles covered within the scope of the proposed ED?
2. Based on decisions made with respect to proposed ED 43, are additional examples required?
3. Are the examples realistic?
4. Are the examples clear and understandable?

PROPOSED IMPLEMENTATION GUIDANCE – Illustrative Examples

This Implementation Guidance accompanies, but is not part of, IPSAS XX (ED 43). The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS XX (ED43).

EXAMPLES 1-7 USE THE SAME BASIC SET OF FACTS AND CIRCUMSTANCES

1. Recognition of Asset and Related Liability when All Conditions for Control are Met (Application of paragraph 8)

In January 2X07, a provincial government Province A entered into an agreement with a private sector contractor for the design, construction, maintenance and operation of a new toll auto bridge over a major waterway. The new bridge will replace an existing structure which Province A has determined to be too costly to renovate and repair. The private-sector contractor, Newbridge, Ltd. (Newbridge), is a consortium comprising a construction company, an information technology company specializing in automated toll collection software and equipment, and a private equity investor. Newbridge was created specifically for the execution of this agreement with Entity A and it has no other operations. The relevant facts and circumstances related to the SCA are as follows:

- 1.01 Newbridge will be responsible for the architectural design of the bridge. Such design must enable the bridge to meet certain operational requirements specified in the agreement, including minimum height above the waterway and maximum tonnage capacity. Limitations on the types of materials to be used in construction of the bridge are also incorporated into the agreement to maximize the use of environmentally-friendly materials. The final design of the bridge is subject to approval by engineers of the Province A Department of Roads and Bridges. Construction of the bridge is required to begin within one month of the approval of the final design by Province A. Certain milestones related to the completion of the design and construction phases are incorporated into the contract with Newbridge being subject to penalties if such the timing of such milestones is not met. While quarterly meetings are held between Newbridge and Province A engineers to update progress and discuss construction issues, status reports detailing the value of construction completed to date are not prepared.
- 1.02 Newbridge will be responsible for the maintenance and operation of the bridge for a period of 40 years from its opening.
 - (a) From a maintenance perspective, Newbridge is required to maintain the condition of the bridge in compliance with structural, operational and aesthetic requirements and benchmarks detailed in the agreement. The condition of the bridge is subject to semi-annual inspection by Province A. Violations of maintenance requirements must be cured within a specified time period or Newbridge may be subject to penalties. Violations that are

not cured by the end of the specified time period could result in termination of the contract.

- (b) From an operations perspective, Newbridge is required to maintain a minimum number of open lanes during specific periods of the day and the types of vehicles that can use the bridge are specified in the agreement. Newbridge will be responsible to collect tolls from users on the westbound direction of the bridge. The agreement also specifies a minimum number of toll booths that must be open during certain hours of the day to improve traffic flow, however, use of a specific method of toll collection (for example, manual or automated collection) is not specified. It is anticipated that usage of the toll bridge will occur evenly over its useful life.
- (c) Province A is not required to make payments to Newbridge for the services provided under the SCA. Instead, Newbridge will retain the tolls collected from users of the bridge. The agreement stipulates maximum toll rates that can be charged by Newbridge for each year covered under the agreement.

1.03 Province A will own the bridge once constructed and will retain ownership of the bridge upon the termination of the agreement.

1.04 Province A's engineers estimate the current cost of constructing a bridge with the design specifications stipulated in the contractual agreement to be 100 million CU and that if the required maintenance is performed by Newbridge, the bridge will have a 40 million CU residual value at the end of the contractual agreement, for which Province A is not required to pay Newbridge. In addition, the Province's planners and engineers estimate its remaining useful life at that point will be 60 years (i.e., a total of 100 years).

1.05 Newbridge used capital from its private equity investor to finance the construction. Because Newbridge has no other debt outstanding, Province A could not determine Newbridge's expected cost of capital. Province A's incremental borrowing rate is estimated to be six percent.

Analysis

Based on the terms of the agreement, Province A controls or regulates what services Newbridge will provide with the bridge, to whom it must provide them, and the rate that will be charged to users of the bridge. Province A also will control the residual interest in the bridge at the termination of the agreement. It can be expected that such residual interest will be significant because, under the terms of the agreement, the bridge must be maintained in accordance with specified condition requirements and benchmarks.

Conclusion

The criteria specified in paragraph 8 of the Standard are met; accordingly, Province A should report the bridge as property, plant and equipment in its financial statements.

Recognition of the bridge as an asset should not occur until the construction of the bridge is complete because the value of the construction-in-progress cannot be reliably measured given that there are no status reports on construction progress by Newbridge.

Subsequent to initial recognition, Province A will report the bridge as property, plant and equipment considering depreciation and impairment under the cost model or at fair value under the revaluation model in accordance with IPSAS 17.

See Example 2 for measurement of the asset and related liability, subsequent accounting for the liability element of Province A's payments to Newbridge and related finance charge and accounting for the service element.

2. Government-pays SCA – Measurement of Asset and Related Liability, Imputed Finance Charge and Service Element of Scheduled Payments

(a) Construction and service elements can be separated

Assume the same facts and circumstances as Example 1, except replace item 1.03 of the facts and circumstances with the following:

Province A will pay Newbridge an amount not to exceed 100 million currency units for the design and construction portion of the arrangement. Payments will be made based on monthly progress billings submitted by Newbridge starting at the beginning of construction and expected to take one year. Province A will be subject to billings in excess of 100 million CU only to the extent that changes to the design specifications of the bridge create incremental costs of construction. For the maintenance and operation portion of the arrangement, Province A will pay Newbridge an amount per vehicle that passes through the toll. Such charge starts at 3 CU per vehicle and increases by 10% at each 5-year anniversary of the opening of the bridge. Province A will establish the toll amount charged to users of the bridge (and collected by Newbridge on their behalf). It is expected that such charge will be significantly lower than the amount per vehicle paid to Newbridge.

Analysis

The change noted above does not affect the control criteria; thus, Province A still recognizes the bridge as an asset and recognizes the related liability. Under the terms of the contract, the construction and service elements can be separated; thus, the construction costs are accounted for separately from the service costs. In addition, this affects the initial measurement of the asset and related liability.

Conclusion

Because the construction and service elements can be separated, Province A initially reports the bridge as a property, plant and equipment asset, along with a related liability at the estimated fair value of the construction of the bridge, or if lower, the present value of the payments related to construction.

Because all payments for construction will be made by the completion of the construction (expected to be one year), the fair value of the bridge substantively equals the present value of the construction payments. Therefore, the historical cost reported by Province A for the bridge should be 100 million CU.

Province A should recognize the bridge asset and a short-term liability (i.e., accounts payable) as work is performed and billed because the payment is made over the period of construction and amounts can be reasonably estimated.

If the construction period covered a longer term, Province A would determine an imputed finance charge related to the related 100 million CU liability and should allocate the scheduled payments between the finance charge and the liability repayment.

Province A should recognize expenses associated with the maintenance and operation of the bridge as those services are rendered by Newbridge. The amount of the expenses will be determined based on the number of vehicles that pass through the tolls in a given financial period.

(b) Construction and service elements cannot be separated

Assume the same facts and circumstances as Example 1, replace item 1.03 of the facts and circumstances with the following:

Province A will pay Newbridge a specified amount per year (in monthly installments) covering all phases of the agreement (design, construction, maintenance and operation) beginning with the year in which construction is completed and the bridge is ready for use. The initial annual amount to be paid by Province A is 10 million CU. This amount will increase by 15 percent at each 10-year anniversary of the completion of the bridge. Amounts for enhancements or renovations to the bridge beyond those needed to maintain the bridge in a state of good condition will be separately negotiated and added to the stipulated annual payment.

Analysis

The change noted above does not affect the control criteria; thus, Province A still recognizes the bridge as an asset and recognizes the related liability. Under the terms of the contract, Province A makes an annual payment covering all aspects of services provided by Newbridge; therefore, the construction and service elements of the scheduled payments by Province A to Newbridge cannot be separated. In addition, this affects the initial measurement of the asset and related liability.

Conclusion

Province A initially reports the bridge as a property, plant and equipment asset, along with a related liability at the amount of the estimated fair value of the bridge, 100 million CU because the construction and service elements of Province A's payments to Newbridge are not separable.

The annual payments made by Province A under the agreement starting in 20X9 will be allocated between (a) amounts that reduce the liability associated with the asset; (b) imputed finance charges on such liability; and (c) charges for the maintenance and operation services provided by Newbridge.

Based on their incremental rate of borrowing and the length of the arrangement, Province A estimates an aggregate fixed amount per annum related to principal and interest payments on the liability, which is then allocated to the repayment of liability

principal and imputed finance charges based on an amortization schedule. The difference between this aggregate payment of principal and interest on the liability and the total annual payment to Newbridge relates to maintenance and operation services and is reported as an expense as such services are rendered.

3. Recognition and Measurement in a User-pays SCA

Item 1.02(c) of the facts and circumstances in Example 1 specifies that Newbridge collects third-party usage fees as its compensation for the services rendered to Province A.

Analysis

The tolls collected by Newbridge are considered by Province A to be consideration received in advance of performance (i.e., the receipt of cash in advance of providing access to operate the bridge to Newbridge).

Conclusion

The 100 million CU represents the liability related to the asset recognized under Example 1.

The liability of 100 million CU initially recorded will be amortized and recognized as revenue by Province A over the life of the agreement beginning in 20X9 when the bridge is considered fully operational. Province A would recognize the revenue using the straight-line method over its useful life fairly represents Newbridge's economic consumption of its access to the bridge given the expected usage of the road.

4. Recognition and Measurement of an Upfront Payment Received from the Operator

Assume the same facts and circumstances as Example 1, except replace paragraph 1.03 of the facts and circumstances with the following:

Newbridge will pay Province A 500 million CU for the right to construct and operate the bridge. Payment is to be made within 60 days of signing the agreement. Newbridge will retain the tolls collected from users of the bridge. The agreement stipulates maximum toll rates that can be charged by Newbridge for each year covered under the agreement. Province A is not required to make any payments to Newbridge unless there are changes to the specification or scope of the contract.

Analysis

Because the criteria in paragraph 8 are met, Province A reports the bridge as property, plant and equipment at its estimated fair value, 100 million CU (as covered in Examples 1-3), along with a corresponding liability reflecting consideration in advance of performance (i.e. the receipt of the bridge asset in advance of providing access to the bridge). The upfront payment from Newbridge of 500 million CU also is accounted for as consideration in advance of performance (i.e., the receipt of cash

in advance of providing access to operate the bridge to Newbridge) upon receipt. The total liability is therefore 600 million CU.

Conclusion

The aggregate consideration in advance of performance liability of 600 million CU (100 million CU in Example 3 plus 500 million CU in this Example) will be amortized and recognized as revenue by Province A over the life of the agreement beginning in 20X9 when the bridge is completed and fully operational. Province A would recognize the revenue using the straight-line method over its useful life which it believes fairly represents Newbridge's economic consumption of its access to the bridge given the expected usage of the road.

5. Whole-of-life SCA

Assuming the same set of facts as Example 1, except replace paragraphs 1.03 and 1.04 of the facts and circumstances with the following:

Province A will own the bridge once constructed and will retain ownership of the bridge upon the termination of the agreement. Province A's planners and engineers project that a new bridge will need to be built within five years of the end of the SCA to meet increased volume due to demographic shifts and due to the prohibitive cost of renovating and maintaining the bridge constructed under the SCA. Therefore, it is estimated that the residual value of the bridge at the end of the SCA will be 500 thousand CU and it will have a remaining useful life of five years. Province A is not required to pay Newbridge for the residual value at the end of the SCA.

Analysis

In this case, the SCA is a whole-of-life arrangement (i.e., there is no significant residual value and no significant remaining useful life). The Standard requires that in such cases, only the control criterion in paragraph 8(a) of this Standard must be met. In this case, it is met.

Conclusion

Province A would still recognize the underlying property as an asset and recognize the related liability as described in Example 1.

6. "Control over use" condition met, but "any significant residual value" condition not met (and the arrangement does not involve a whole of life asset)

Assuming the same set of facts and circumstances as Example 1, except replace paragraphs 1.03 and 1.04 of the facts and circumstances with the following:

Newbridge will own the bridge once constructed and will retain ownership of the bridge upon the termination of the SCA. Province A's engineers estimate that if the required maintenance is performed by Newbridge, the bridge will have a 40 million CU residual value at the end of the SCA. In addition, the engineers estimate its remaining useful life at that point will be 60 years (i.e., a total of 100 years).

Analysis

In this case, the criteria in paragraph 8 of the Standard would not be met because Province A does not control the significant residual interest in the bridge that remains at the end of the SCA. The asset is not “whole-of-life” because there is still significant remaining useful life at the end of the SCA.

Conclusion

This arrangement would not meet the definition of a lease under IPSAS 13 because Province A is not making payments to Newbridge in exchange for its control over the use of the asset during the arrangement. Therefore, because Newbridge owns the asset during the SCA, Province A should not report the bridge as a property, plant and equipment asset.

7. “Control over use” condition not met, but “any significant residual value” condition met

(a) Newly constructed property

Assuming the same set of facts and circumstances as Example 1, except that item 1.02(b) of the facts and circumstances is replaced with the following:

From an operations perspective, Newbridge is not required to maintain a minimum number of open lanes during specific periods of the day. There is no restriction specified in the agreement on the types of vehicles that can use the bridge. Newbridge will be responsible for collecting tolls from users on the westbound direction of the bridge. The agreement specifies a minimum number of toll booths that must be open during certain hours of the day to improve traffic flow, however, use of a specific method of toll collection (for example, manual or automated collection) is not specified.

In addition, items 1.03 and 1.04 are replaced with the following:

Newbridge will own the bridge during the term of the SCA. Province A’s engineers estimate that if the required maintenance is performed by Newbridge, the bridge will have a 40 million CU residual value at the end of the SCA. Province A is not required to pay Newbridge for the residual value at the end of the SCA. In addition, the engineers estimate its remaining useful life at that point will be 60 years (i.e., a total of 100 years).

Analysis

In this case, the control over use criterion in paragraph 8(a) of the Standard is not met, and the property would not be recognized as an asset. The Standard requires Province A to recognize an asset equal to the excess of the expected fair value of the asset at the end of the arrangement (i.e., the residual value) and the amount the grantor is required to pay the operator on reversion as an asset.

Conclusion

Province A recognizes as an asset the excess of the expected fair value of the asset at the end of the arrangement (i.e., the residual value of 40 million CU) and the amount

the grantor is required to pay Newbridge on reversion (i.e., 0 CU) as an asset. The asset is accreted over the 40 year term of the SCA based on payments made by the grantor to the operator.

(b) Existing property

Assuming the same set of facts and circumstances as Example 7(a), except that the bridge already exists and is reported by Province A as an asset when the SCA is entered into. The 20-year old bridge is reported at 10 million CU in Province A's financial statements when the SCA is entered into.

Analysis

In this case, Province A retains ownership of the bridge during the SCA; however, Newbridge controls its use. Thus, the criterion in paragraph 8(a) is not met. The Standard requires Province A to assess whether the arrangement is a lease (with Province A as the lessor). If so, the guidance in IPSAS 13 pertaining to lessors would be followed. If not, Province A would derecognize the bridge as an asset and recognize as an asset (receivable) Newbridge's obligation to return the property at the end of the arrangement (the residual value). This asset is recognized at the expected fair value of the property at the end of the arrangement. The net derecognition amount is reported as a gain or loss in the period in which the SCA is entered into (January 1, 20X7 per example 1).

The arrangement is not a lease because Newbridge the bridge not making payments to Province A in exchange for its control over the use of the asset during the arrangement.

Conclusion

Province A derecognizes the 10 million CU property, plant and equipment asset and recognizes the receivable asset of 40 million CU. The net gain of 30 million CU is reported in the financial year ending March 31, 20X7.

EXAMPLES 8-11 USE THE SAME BASIC SET OF FACTS AND CIRCUMSTANCES

8. Example X – Revenue-sharing Provisions [5.1 paragraph ; CP 181-190 (186-7 primarily)]

In 20X1, Entity A entered into a contract for an SCA involving the construction and operation of the Interurban Express Toll Road by Entity B. Under the terms of the contract, Entity A is entitled to receive 20 percent of all toll revenue earned in excess of 10 million currency units (CU) in a year based on Entity B's financial statements. In recent history, the toll road has earned between 15 and 20 million CU annually. Entity B provides Entity A with unaudited monthly financial statements, which historically have not differed significantly from final audited amounts.

During the financial year ending March 31, 20X9, Entity B exceeds the 10 million CU threshold at January 31, 20X9, and at March 31, 20X9, the excess amount totals 1 million CU.

Analysis

The Standard requires the revenue to be recognized when it is earned. This contractual provision involves both a royalty-like payment and a contingent event.

IPSAS 9, “Revenue From Exchange Transactions” states that royalties should be recognized as they are earned in accordance with the substance of the relevant agreement when it is probable that (a) economic benefits or service potential associated with the transaction will flow to the entity, and (b) the amount of the revenue can be reliably measured.

Item 25 of the Appendix to IPSAS 9 further indicates the following:

In some cases, whether or not a license fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognized only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

Conclusion

In accordance with IPSAS 9, Entity A would not recognize revenue until the toll road generates 10 million CU. At that point, because history indicates that the 10 million CU threshold will be exceeded (i.e., the revenue will be received). Entity A would recognize its portion of the toll revenue (along with a related receivable) as it is earned by Entity B. Thus, for February and March 20X9, the grantor recognizes 20% of the toll revenues earned by the operator during that period, or 200,000 CU.

9. Example X – Consideration as to Whether the SCA Involves a Special Purpose Entity (SPE) [CP.205-208]

The SCA is a contract between the grantor, Entity A and the operator, Entity B (the SPE) under which Entity B provides construction, maintenance and operations services related to a toll highway on behalf of Entity A in exchange for the right to collect tolls from users of the highway. The shareholders of Entity B hold 100% of the voting rights and ownership in the SPE.

The SCA meets the criteria for control of the asset under paragraph 8 of this Standard, and Entity A recognizes the asset and related liability under this Standard.

Additional elements of the contract are as follows:

- 10.01 Entity B is only permitted to issue debt as specified in the contract, and Entity A must pre-approve any additional indebtedness.
- 10.02 All toll rates are subject to approval by the national Minister of Transport (on recommendation from Entity A), and Entity A may amend the toll rates.

- 10.03 Entity A may require Entity B to remove any employee Entity A believes is incompetent or guilty of misconduct.
- 10.04 Entity B is required to ensure that the highway is open to traffic at all times, and that the traffic flow satisfies certain predetermined standards that meet Entity A's objectives related to transport (thus indicating Entity A's ability to direct Entity B to co-operate with it in achieving Entity A's objectives).
- 10.05 Entity B is required to make payments to Entity A if the return on the project exceeds a certain threshold.

Analysis

Items 10.0-10.03 may evidence Entity A's ability to control the SPE.

Items 10.04-10.05 may indicate the Entity A's ability to benefit from the activities of the SPE.

Given the limited operations of the SPE (i.e., to operate the toll road for Entity A), the presence of these indicators could lead to the conclusion, based on the guidance in IPSAS 6, that Entity A can control Entity B. However, as described in paragraph 39 of IPSAS 6, Entity A also considers whether there is clear evidence that an entity other than Entity A holds control over Entity B. In this case, the shareholders of the SPE exhibit a greater degree of control than Entity A over the SPE because they have 100% ownership and voting control of the SPE.

Conclusion

Entity A would not, therefore, account for the SPE as an entity under its control and would not consolidate Entity B.

10. Contingencies, guarantees and commitments

(a) Loan Guarantee

As a means of lowering the overall cost of the SCA in example 8, Entity A provides a guarantee of the financing Entity B obtains to construct the underlying asset. The guarantee contract with the lender requires that Entity A pay the lender if Entity B defaults on its repayments.

Analysis

This type of guarantee meets the definition of a financial guarantee contract under IPSAS XX (ED 38) because it requires the issuer of the guarantee (Entity A) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor (Entity B) fails to make payment when due in accordance with the original or modified terms of a debt instrument.

IPSAS XX (ED 38) requires that financial guarantee contracts be accounted for as financial liabilities, which are initially measured at fair value, and subsequently at the higher of:

- (a) The amount determined in accordance with IPSAS 19; and

- (b) The amount initially recognized (see paragraph 45) less, when appropriate, cumulative amortization recognized in accordance with IPSAS 9.

Conclusion

Entity A applies the provisions of IPSAS XX (ED 38) to determine the appropriate accounting for and reporting of the guarantee as a financial liability.

- (b) **Guarantee by Grantor of Minimum Revenue Stream to Operator** – Liability Recognized

A further element of the SCA described in Example 7 is that Entity A is required to pay Entity B 80 percent of any shortfall in actual toll revenues from projected revenues based on unaudited monthly financial statements, which historically have not differed significantly from final audited amounts. The amount Entity A is required to pay is finalized based on the operator's audited financial statements.

In the third quarter of the financial year ending March 31, 20X9, the grantor is informed that the operator will not meet projected revenues based on verifiable information from the operator that permits a reliable estimate. The shortfall is 1 million CU.

Analysis (using IPSAS 19 criteria)

Present obligation as a result of a past event—The obligating event is the giving of the contractual guarantee, which gives rise to a legal obligation.

Probable outflow of resources embodying economic benefits or service potential in settlement—it is probable that Entity A will need to fulfill its guarantee of minimum revenue to Entity B, thus the contingent event that is the subject of the guarantee has occurred.

A reliable estimate can be made of the amount of the obligation—Verifiable information from Entity B permits a reliable estimate of the amount of the obligation.

Conclusion

A provision is recognized for the best estimate of 80 percent of the shortfall in actual toll revenues from projected revenues, or 800,000 CU. If any of the above conditions is not met, Entity A discloses the contingency (see 10 below).

11. Sample disclosures (commitments and contingencies section¹)

Commitments and Contingencies under Service Concession Arrangements

Commitment for payments to the operator for construction and operation services: During the financial year ending March 31, 20X1, Entity A entered into a contractual arrangement with Entity B, a private sector operator, to build and operate the Interurban Express Toll Road for a period of forty years.

¹ Entities may choose to present all disclosures about an SCA together, as in this example, or they may provide various disclosures related to an SCA separately along with other similar disclosures.

Comment [j1]: The guidance here may be affected by the IASB ED to amend IAS 37, on which IPSAS 19 is based.

Comment [j2]: This is a similar setup to IPSAS 19, Appendix C, Example 9.

Comment [j3]: Sample disclosure of the regularly scheduled payments (commitment) under paragraph 67(c) of the ED.

Under the terms of the contract with Entity B, Entity A is required to pay \$10 million CU to Entity B for each of the next forty years. The payments are allocated between the cost of constructing the asset and costs of operating the toll road.

Loan Guarantee: In connection with the Interurban Express Toll Road, Entity A has also provided a loan guarantee to Financial Institution X for financing obtained by Entity B to build the road. The guarantee contract with the lender requires that Entity A pay the lender if Entity B defaults on its repayments. As at March 31, 20X9, Entity B was making its loan payments in compliance with its loan agreement.

Comment [j4]: Sample disclosure of the Loan Guarantee in example 10(a) [per paragraph 67(c) of the draft ED]

Guarantee of minimum revenue stream to operator – contingency recognized: Under the terms of the agreement for the Interurban Express Toll Road, Entity A is required to pay Entity B 80 percent of any shortfall in actual annual toll revenues from projected revenues. For the financial year ending March 31, 20X9, Entity B had a shortfall of 1 million CU, and Entity A recognized a provision for 800,000 CU.

Comment [j5]: Sample disclosure related to example 10(b) when the contingency is recognized.

Guarantee of minimum revenue stream to operator – contingency not recognized: Under the terms of the agreement for the Interurban Express Toll Road, Entity A is required to pay Entity B 80 percent of any shortfall in actual annual toll revenues from projected revenues. For the financial year ending March 31, 20X9, Entity B earned toll revenues in excess of projected revenues.

Comment [j6]: Sample disclosure related to example 10(b) when the contingency is disclosed and not recognized.

Revenue-sharing provision: Under the terms of the agreement for the Interurban Express Toll Road, Entity A is entitled to receive 20 percent of all toll revenue earned in excess of 10 million currency units (CU) in a year. During the year Entity A recognized 200,000 CU under the revenue-sharing provision.

Comment [j7]: Sample disclosure related to example 8.