

Exposure Draft 43

February 2010

Comments are requested by June 30, 2010

*Proposed International Public Sector Accounting
Standard*

**Service Concession Arrangements:
Grantor**



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved this Exposure Draft, ED 43, “Service Concession Arrangements: Grantor,” for publication in February 2010. The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by June 30, 2010.**

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the “Submit a Comment” link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to edcomments@ifac.org and stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPASB Technical Director at +1 (416) 204-3412, or mailed to:

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

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IPSAS XX (ED 43)—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

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 in a service concession arrangement. IFRIC 12 is published by the International Accounting Standards Board (IASB). It also contains extracts from the Standing Interpretations Committee Interpretation 29 (SIC-29), “Service Concession Arrangements: Disclosures.” Extracts from IFRIC 12 and SIC-29 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) 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.

Guide for Respondents

The IPSASB would welcome 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 proposed changes to the Exposure Draft.

Specific Matter for Comment

This Exposure Draft addresses service concession arrangements from the grantor's perspective. It mirrors the principles set out in IFRIC 12 for accounting by the operator.

Do you agree with this approach?

February 2010

**IPSAS XX (ED 43)—SERVICE CONCESSION ARRANGEMENTS:
GRANTOR
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International Public Sector Accounting Standard (IPSAS) XX (ED 43), “Service Concession Arrangements: Grantor” is set out in paragraphs 1–32. All the paragraphs have equal authority. IPSAS XX (ED 43) 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 43) prescribes the accounting treatment by the grantor for service concession arrangements.
- IN2. This Standard is intended to “mirror” Interpretation 12 of the International Financial Reporting Interpretations Committee, “Service Concession Arrangements” (IFRIC 12), which gives guidance on the accounting by operators in service concession arrangements. Accordingly, the scope, principle for recognition of an asset, and terminology are derived from IFRIC 12. The detailed accounting principles for the service concession asset and related liability, revenues, and expenses are set out in the following Standards:
- (a) IPSAS 1, “Presentation of Financial Statements”;
 - (b) IPSAS 9, “Revenue from Exchange Transactions”;
 - (c) IPSAS 12, “Inventories”;
 - (d) IPSAS 13, “Leases”;
 - (e) IPSAS 17, “Property, Plant and Equipment”;
 - (f) IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”;
 - (g) IPSAS 23, “Revenue from Non-Exchange Transactions”;
 - (h) IPSAS 28, “Financial Instruments: Presentation”;
 - (i) IPSAS 29, “Financial Instruments: Recognition and Measurement”;
 - (j) IPSAS 30, “Financial Instruments: Disclosures”; and
 - (k) IPSAS 31, “Intangible Assets”.
- IN3. This Standard requires the grantor to recognize assets used in service concession arrangements as service concession assets when specified conditions for recognition are met and to recognize certain liabilities and expenses associated with the service concession arrangement. The Standard also specifies how to measure the carrying amount of service concession assets and liabilities, how to measure revenues and expenses arising from the service concession arrangement and it requires specified disclosures about the service concession arrangements.
- IN4. In many countries, assets used for public services – such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services – have traditionally been constructed or developed, operated, maintained, and financed by the public sector.
- IN5. 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. An arrangement within the scope of this Standard typically involves an operator constructing or developing an asset used to provide a 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 binding arrangement sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

- IN6. This Standard does not apply to all arrangements that include private sector participation. Arrangements that are not within the scope of this Standard would be accounted for using other IPSASs, as appropriate to their specific terms and conditions.
- IN7. This Standard adopts the same description “service concession arrangement” as used in IFRIC 12.
- IN8. This Standard is intended to apply to the same types of assets as those addressed in IFRIC 12. IFRIC 12 refers to the assets used in a service concession arrangement as “infrastructure.” However, to avoid confusion with terminology already used in the public sector, this Standard refers to such assets as “service concession assets.”
- IN9. For arrangements within the scope of this Standard, the “grantor” is the entity that grants the service concession to the operator. IPSASs apply to all public sector entities other than GBEs, thus this Standard does not specify the accounting for private sector grantors.
- IN10. This Standard specifies disclosures for certain components of service concession arrangements that are additional to the disclosures required in other Standards. 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).

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Terminology

2. A service concession arrangement typically involves an operator constructing or developing 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. The service concession arrangement is binding on the parties to the arrangement and obliges the operator to provide the public services on behalf of the public sector entity.
3. The following terminology is used in this Standard:
 - (a) A binding arrangement describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they 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 asset is an asset used to provide public services in a service concession arrangement that meets the conditions for recognition set out in paragraph 10 (or paragraph 11 for a whole-of-life asset).

Scope

4. **A grantor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.**
5. **This Standard applies to all public sector entities other than Government Business Enterprises.**
6. 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.”
7. To be within the scope of this Standard,¹ an arrangement must be binding on the parties to the arrangement and oblige the operator to provide the public services related to the service concession asset to the public on behalf of the grantor. Arrangements that do not involve the delivery of public services fall outside the scope of this Standard, as do arrangements that involve service and management components where the asset is not controlled by the grantor, as specified in paragraph 10, or paragraph 11 for a whole-of-life asset (e.g., outsourcing, service contracts, or privatization).

¹ Paragraphs AG3–AG13 provide guidance on determining whether, and to what extent, service concession arrangements are within the scope of this Standard.

8. This Standard applies to the following assets, when they meet the conditions for recognition specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), or for reclassification specified in paragraph 12:
 - (a) Assets that the operator constructs or develops, or acquires from a third party for the purpose of the service concession arrangement;
 - (b) Existing assets of the operator to which the operator gives the grantor access for the purpose of the service concession arrangement;
 - (c) Existing assets of the grantor which the operator upgrades for the purpose of the service concession arrangement. Only the cost of the upgrade is recognized as a service concession asset in accordance with paragraph 10, or paragraph 11 for a whole-of-life asset); and
 - (d) Existing assets of the grantor to which the grantor gives the operator access for the purpose of the service concession arrangement and of which the grantor retains control, as specified in paragraph 10 (or paragraph 11 for a whole-of-life asset). Such assets are reclassified as service concession assets in accordance with paragraph 12.
9. 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).

Recognition and Measurement of a Service Concession Asset

10. **The grantor shall recognize a service concession asset in respect of an asset specified in paragraphs 8(a), 8(b) and 8(c); and shall reclassify an asset specified in paragraph 8(d) 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.**
11. **This Standard applies to an asset used in a service concession arrangement for its entire useful life (a “whole-of-life” asset) if the condition in paragraph 10(a) is met.**
12. **Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), the grantor shall not recognize the asset as a service concession asset in accordance with this Standard. The grantor shall reclassify the existing asset as a service concession asset for reporting purposes and disclose the reclassification in accordance with paragraph 27. The reclassified service concession asset shall continue to be accounted for in accordance with IPSAS 17, “Property, Plant and Equipment” or IPSAS 31, “Intangible Assets”, as appropriate.**

13. **The service concession asset recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset) shall be accounted for in accordance with IPSAS 17 or IPSAS 31,² as appropriate.**
14. The grantor may compensate the operator for the service concession asset by any combination of:
 - (a) Making payments to the operator;
 - (b) Compensating the operator by other means such as:
 - (i) Granting the operator the right to collect fees from third-party users of the service concession asset; or
 - (ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., 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).
15. **The grantor shall initially measure the original service concession asset at its fair value.**
16. Where the grantor compensates the operator for the service concession asset by making payments, and the asset and service portions of the payments by the grantor to the operator are separable, the fair value in paragraph 15 is the fair value of the asset portion of the payments.
17. Where the asset and service portions of payments by the grantor to the operator are not separable, the fair value is determined using estimation techniques.
18. **After recognition as a service concession asset, the grantor shall measure the service concession asset in accordance with the requirements in IPSAS 17 or IPSAS 31, as appropriate.**

Recognition and Measurement of Liabilities

19. **When the grantor recognizes a service concession asset in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset), the grantor shall also recognize a liability. The liability recognized may be any combination of a financial liability and a performance obligation.**
20. **The liability recognized in accordance with paragraph 19 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraphs 15–17.**
21. **When the grantor compensates the operator for the service concession asset by making payments, the liability recognized in accordance with paragraph 19 is a financial liability. The grantor shall subsequently account for the financial liability in accordance with IPSAS 28, “Financial Instruments: Presentation,” IPSAS 29, “Financial Instruments: Recognition and Measurement,” and IPSAS 30, “Financial Instruments: Disclosures.” The grantor shall allocate the payments to the operator and account for them according**

² Paragraph AG20 provides guidance for cases when the service concession asset is constructed or developed.

to their substance as a reduction in the liability recognized in paragraph 19, a finance charge and service portions.

22. When the grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use, the liability recognized in accordance with paragraph 19 is a performance obligation. The grantor shall subsequently account for the performance obligation in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets."
23. When the operator compensates the grantor for the right to use the service concession asset, either by provision of the service concession asset or by making payments to the grantor, the liability recognized by the grantor in accordance with paragraph 19 is a performance obligation. The grantor shall account for the performance obligation in accordance with IPSAS 19.

Recognition and Measurement of Revenues

24. The grantor shall account for revenue from a service concession arrangement in accordance with IPSAS 9, "Revenue from Exchange Transactions."

Recognition and Measurement of Expenses

25. The finance charge and service components of a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses in accordance with IPSAS 1, "Presentation of Financial Statements."

Presentation and Disclosure

26. The grantor shall classify a service concession asset recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset), or reclassified in accordance with paragraph 12 as a non-current asset.
27. 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 service concession arrangements:
 - (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 service concession arrangement;

- (iii) **Service concession assets recognized as assets during the period, including existing assets of the grantor reclassified as service concession assets;**
 - (iv) **Rights to receive specified assets at the end of the service concession arrangement;**
 - (v) **Renewal and termination options;**
 - (vi) **Other rights and obligations (e.g., major overhaul of the service concession asset, financial and performance obligations); and**
 - (vii) **Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and**
- (d) **Changes in the arrangement occurring during the accounting period.**
28. The disclosures required in accordance with paragraph 27 are provided individually for each material service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services).

Transition

29. **An entity that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors.”**
30. **An entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting shall apply this Standard prospectively. However, retrospective application is permitted.**

Effective Date

31. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 1, IPSAS 13, IPSAS 17, IPSAS 19, IPSAS 28, IPSAS 29, IPSAS 30, and IPSAS 31 at the same time.**
32. When an entity adopts the accrual basis of accounting, as defined by IPSASs, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Application Guidance

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

Terminology

AG1. Paragraph 2 describes common features of a service concession arrangement. Other common features are:

- (a) The grantor is a public sector entity;
- (b) The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor;
- (c) 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
- (d) The operator is obliged to hand over the service concession 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.

AG2. Paragraph 3(c) describes a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services.

Scope

AG3. This Standard is intended to “mirror” Interpretation 12 of the International Financial Reporting Interpretations Committee, “Service Concession Arrangements” (IFRIC 12), which sets out the accounting requirements of the operator in a service concession arrangement. The scope, principle for recognition of an asset, and terminology are derived from IFRIC 12. However, because this Standard deals with the accounting issues of the grantor, this Standard addresses the issues identified in IFRIC 12 from the grantor’s point of view, as follows:

- (a) The grantor recognizes a financial liability when it is obliged to make a series of payments to the operator for provision of a service concession asset (either constructed or developed, or an existing asset of the operator). Under paragraphs 12, 14, and 20 of IFRIC 12, the operator recognizes revenue for the construction, upgrade, and operation services it provides. Under paragraph 8 of IFRIC 12, the operator derecognizes an asset that it held and recognized as property, plant and equipment before entering the service concession arrangement.
- (b) The grantor recognizes a performance obligation when it grants the operator access to the service concession asset or another revenue-generating asset. Under paragraph 26 of IFRIC 12, the operator recognizes an intangible asset.

- (c) The grantor derecognizes an asset it grants to the operator and over which it no longer has control. Under paragraph 27 of IFRIC 12, the operator recognizes the asset and a liability in respect of any obligations it has assumed in exchange for the asset.
- AG4. Paragraph 10 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is within the scope of the Standard. Paragraph 11 of the Standard specifies the condition under which “whole-of-life” assets are within the scope of the Standard.
- AG5. The assessment of whether a service concession asset should be recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.
- AG6. The control or regulation referred to in paragraph 10(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. 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. When the binding arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph 10(a).
- AG7. For the purpose of paragraph 10(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, (e.g., by a capping mechanism). However, the condition 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 met.
- AG8. Governments and their agencies have the power to regulate the behavior of many entities by use of their powers and rights conferred by legislation, a constitution, or by equivalent means. For the purpose of paragraph 10(a), such regulatory powers do not constitute control. 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 service concession arrangement.
- AG9. For the purpose of paragraph 10(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.

- AG10. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 10(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.
- AG11. The conditions in paragraphs 10(a) and 10(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 is considered as a whole. Thus the condition in paragraph 10(b) is met 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.
- AG12. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph 10(a) and partly unregulated. However, these arrangements take a variety of forms:
- (a) Any asset 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 10(a) is met 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 10(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.
- AG13. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with IPSAS 13.

Recognition and Initial Measurement of a Service Concession Asset

Existing Asset of the Grantor

- AG14. The arrangement may involve an existing asset of the grantor:
- (a) To which the grantor gives the operator access for the purpose of the service concession arrangement; or
 - (b) To which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.
- AG15. As specified in paragraph 12, existing assets of the grantor which the grantor continues to control in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset), are not recognized as new service concession assets, but are reclassified for reporting purposes and continue to be accounted for in accordance with IPSAS 17 or IPSAS 31, as appropriate.

- AG16. In applying the impairment tests in IPSAS 17 or IPSAS 31, as appropriate, 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. The grantor refers to IPSAS 21, “Impairment of Non-Cash-Generating Assets” or IPSAS 26, as appropriate to determine whether any of the indicators of impairment have been triggered under such circumstances.
- AG17. If the asset no longer meets the conditions for recognition in paragraph 10 (or paragraph 11 for a whole-of-life asset), the grantor follows the derecognition principles in IPSAS 17 or IPSAS 31, as appropriate. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 13.
- AG18. When the service concession arrangement involves upgrading an existing asset of the grantor such that the future economic benefits or service potential the asset will provide are increased, the upgrade is assessed to determine whether it meets the conditions for recognition in paragraph 10 (or paragraph 11 for a whole-of-life asset). If those conditions are met, the upgrade is accounted for in accordance with this Standard.

Existing Asset of the Operator

- AG19. If the arrangement involves an existing asset of the operator to which the operator gives the grantor access for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph 10 (or paragraph 11 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognizes the asset as a service concession asset and account for it in accordance with this Standard.

Constructed or Developed Asset

- AG20. IPSAS 17 or IPSAS 31, as appropriate, set out the criteria for the timing of initial recognition of a service concession asset. In the case of property, plant and equipment, where the operator bears the construction risk, the timing of initial recognition of the service concession asset by the grantor will normally be when the asset is placed into use. Where the grantor bears the construction risk, the recognition criteria may be met during the construction period, and, if so, the grantor will normally recognize the service concession asset (and related liability) during that period. The recognition criteria in IPSAS 31 also require that the initial cost or fair value of the asset can be measured reliably for an intangible asset to be recognized. Accordingly, to meet the recognition criteria in IPSAS 17 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. In some cases, the grantor may incur an obligation during construction or development before the constructed or developed asset meets the conditions in paragraph 10 (or paragraph 11 for a whole-of-life asset) for recognition as a service concession asset.

Types of Compensation

AG21. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law. Service concession arrangements 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.

AG22. Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

- (a) Making payments to the operator (see paragraphs 15–17 and AG23–AG25 for asset measurement and paragraphs 21 and AG 31–AG37 for liability measurement after recognition);
- (b) Compensating the operator by other means such as:
 - (i) Granting the operator the right to collect revenues directly from third-party users of the service concession asset (see paragraphs 15 and AG26–AG27 for asset measurement and paragraphs 22 and AG38–AG39 for liability measurement after recognition); or
 - (ii) Granting the operator access to another revenue-generating asset for its use (see paragraphs 15 and AG26–AG27 for asset measurement and paragraphs 22 and AG40 for liability measurement after recognition).

Separable Payments

AG23. A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

- (a) Part of a payment stream that varies according to the availability of the service concession asset itself and another part that varies according to usage or performance of certain services are identified;
- (b) Different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or
- (c) Different components of the service concession arrangement can be renegotiated separately. For example, a service component 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.

AG24. IPSAS 17 and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. When the amount of a scheduled payment specifies the amount allocated to the service concession asset, the cash price equivalent is the present value of the service concession asset portion of the

predetermined series of payments. However, if the present value is greater than fair value, the service concession asset is initially measured at its fair value.

Inseparable Payments

AG25. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the original service concession asset and those for other components of the service concession arrangement (e.g., maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession 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 a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator Receives Other Forms of Compensation

AG26. The types of transactions referred to in paragraph 14(b) are non-monetary exchange transactions. IPSAS 17 and IPSAS 31, as appropriate, provide guidance on these circumstances.

AG27. 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 paragraphs 14 and AG22 are intended to compensate the operator both for the cost of the facility and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph 17.

Recognition and Measurement of a Liability

AG28. The nature of the liability recognized in accordance with paragraph 19 differs in each of the circumstances described in paragraph AG22 according to its substance.

AG29. When the grantor makes a predetermined series of payments to the operator, the liability is a financial liability as defined in IPSAS 29. When the operator is compensated by being granted the right to earn revenues from either the service concession asset or another asset provided by the grantor, the liability is a performance obligation because the grantor is obligated to provide the asset to the operator. IPSAS 19 provides guidance for such circumstances.

AG30. The grantor may also provide guarantees (e.g., of revenue or of debt incurred to construct the service concession asset). Such guarantees are accounted for in accordance with paragraphs AG56–AG58.

Grantor Makes Payments to the Operator

- AG31. When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, the portion of the predetermined series of payments that pertains to the asset is recognized as a liability in accordance with paragraph 19. This liability does not include the finance charge and service portions of the payments specified in paragraph 21. The finance charge is discussed in paragraphs AG33–AG37 and AG52. The service expense portion is discussed in paragraph AG53.
- AG32. Where the grantor makes any payments to the operator in advance of the service concession asset being recognized, the grantor accounts for those payments as prepayments.
- AG33. The finance charge specified in paragraph 21 is determined based on the operator's cost of capital specific to the service concession asset, if this is practicable to determine.
- AG34. If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, is used.
- AG35. 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.
- AG36. 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.
- AG37. The interest rate used to determine the finance charge may not be subsequently changed unless the asset component or the whole of the arrangement is renegotiated.

Operator Collects Third-Party Revenue

- AG38. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to collect revenue directly from third-party users for use of the service concession asset (see paragraphs 22 and AG26–AG27), the liability is a performance obligation as specified in paragraph 22. The liability recognized in accordance with paragraph 19 is reduced as access to the service concession asset is provided to the operator, ordinarily over the term of the service concession arrangement. 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 AG44–45).

AG39. When the operator collects third-party revenues, the grantor does not recognize revenue unless the arrangement also contains revenue-sharing provisions (see paragraphs AG48–AG49) or minimum-revenue guarantees (see paragraphs AG56–AG57).

Grantor Gives the Operator Access to Another Revenue-Generating Asset for its Use

AG40. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset to the operator, the liability is a performance obligation as indicated in paragraph 22. The liability is reduced as access to the revenue-generating asset is provided to the operator. In such cases, the grantor considers the derecognition requirements in IPSAS 17 or IPSAS 31, as appropriate.

Dividing the Arrangement

AG41. A grantor may recognize both a financial liability and a performance obligation related to a specific service concession arrangement. If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from either the service concession asset or from another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a performance obligation portion for the right granted to the operator to earn revenue from the service concession asset or from another revenue-generating asset. Each portion of the liability is recognized initially at the fair value of the consideration paid or payable. Financial liabilities are accounted for in accordance with IPSAS 28, IPSAS 29, and IPSAS 30. Performance obligations are accounted for in accordance with IPSAS 19.

Revenue Recognition

AG42. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

- (a) An upfront payment or a stream of payments to the grantor (see paragraphs AG43–AG47);
- (b) Revenue-sharing provisions (see paragraphs AG48–AG49);
- (c) A reduction in a predetermined series of payments the grantor is required to make to the operator (see paragraph AG50); and
- (d) Rent payments for providing the operator access to a revenue-generating asset (see paragraph AG51).

AG43. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with IPSAS 9. The timing of the revenue recognition is determined by the

terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

- AG44. Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to collect the third-party revenues, as described in paragraphs AG38–AG39, or for access to another revenue-generating asset, as described in paragraph AG40, any portion of the payments received from the operator not earned in the accounting period is recognized as a performance obligation until the conditions for revenue recognition are met.
- AG45. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognized in accordance with paragraph 24.
- AG46. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognizing revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset 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 a service concession arrangement with a term extending over several decades.
- AG47. 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 service concession arrangement, 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 service concession asset and/or the time value of money.
- AG48. For service concession arrangements under which the operator will collect fees directly from third-party users of the service concession asset, 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 AG38). 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 a service concession arrangement 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.
- AG49. The grantor recognizes revenue generated from revenue-sharing provisions in service concession arrangements 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 to determine when the contingent event has occurred.
- AG50. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognized as the liability is reduced (see paragraphs AG44–45).

AG51. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers).”

Expense Recognition

AG52. The finance charge related to the liability in an service concession arrangement is in substance interest on funds obtained by the operator to supply the service concession asset and is therefore accounted for consistently with other finance charges in accordance with IPSAS 28, IPSAS 29, and IPSAS 30.

AG53. The service portion of payments determined in accordance with paragraph 21 is ordinarily recognized evenly over the term of the service concession arrangement because this pattern of recognition best corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognized as incurred.

AG54. Service concession 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.

AG55. When a service concession asset comprises various components, IPSAS 17 requires each component with a cost that is significant in relation to the total cost of the service concession asset to be depreciated separately.

Guarantees and Contingencies

AG56. Service concession arrangements 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 a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for short-falls).

AG57. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract or an insurance contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract or of an insurance contract set out in IPSAS 29, and applies that Standard to recognize and measure any related financial liability

AG58. Guarantees and commitments that do not meet the definition of a financial guarantee contract or of an insurance contract set out in IPSAS 29 are accounted for in accordance with IPSAS 19.

AG59. Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19.

Presentation and Disclosure

AG60. Certain disclosures relating to some components of service concession arrangements are addressed in existing Standards. This Standard addresses only the additional disclosures of service concession arrangements. Where the accounting for a particular component of

a service concession arrangement is addressed in another Standard, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph 27.

AG61. IPSAS 1 requires finance costs to be presented separately in the statement of financial performance. The finance charge determined in accordance with paragraphs 21 and AG33–AG37 is included in this item.

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 arrangements; 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 43), “Service Concession Arrangements: Grantor.”

26. Where an arrangement does not meet the conditions for recognition of a service concession asset in accordance with IPSAS XX (ED 43), “Service Concession Arrangements: Grantor” 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 43) 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 in accordance with IPSAS XX (ED 43), “Service Concession Arrangements: Grantor.”

Paragraph 6 is amended as follows:

6. Other International Public Sector Accounting Standards may require recognition of an item of property plant and equipment based on an approach different from that in this Standard. For example, IPSAS 12, “Leases” requires an entity to evaluate the recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. IPSAS XX (ED 43), “Service Concession Arrangements: Grantor” requires an entity to evaluate the recognition of an item of property, plant and equipment used in a service concession arrangement on the basis of control of the asset. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

A new paragraph is inserted after paragraph 107 as follows:

- 107C. IPSAS XX (ED 43), “Service Concession Arrangements: Grantor” amended paragraphs 4 and 6. 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 43) 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 43).

Objective

- BC1. In the absence of an International Public Sector Accounting Standard dealing with service concession arrangements, public sector entities are directed, in IPSAS 1 to look to other international or national accounting standards. In the case of arrangements involving private sector participation, they would try to apply the principles in Interpretation 12 of the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC 12), "Service Concession Arrangements." However, 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 service concession arrangements 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 mirror of IFRIC 12, in particular, the circumstances under which the grantor recognizes a service concession asset (see paragraphs BC9–BC13). The rationale for this decision is that this approach would require both parties to the same arrangement to apply the same principles in determining whether the asset used in a service concession arrangement 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 service concession asset because the liability may consist of any combination of a financial liability (for a series of predetermined payments) and 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" to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions, provision of a revenue-generating asset for nominal rent).
- BC6. 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 private sector entities. . The operator may also be a Government Business Enterprise (GBE).IPSASs are not designed to apply to GBEs. International Financial Reporting Standards (IFRSs) apply to private sector entities and GBEs.

Terminology

- BC7. The IPSASB agreed that it was not necessary to provide definitions in this Standard in light of the different nature of this Standard (i.e., it is intended to “mirror” the IFRIC 12 requirements) and the fact that IFRIC 12 does not specifically define terms. The IPSASB has instead provided guidance on certain terminology used in this Standard. In particular, 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.
- BC8. The IPSASB agreed not to use the term “infrastructure” to refer to the asset used in a service concession arrangement, 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 conditions for recognition in paragraph 10 of this Standard (or paragraph 11 for a whole-of-life asset), the asset in this Standard is referred to as the “service concession asset.” This term is intended to cover the same types of assets as envisaged in IFRIC 12.
- BC9. The term “binding arrangement” has not been defined, but has been used in other IPSASs to describe arrangements that confer similar rights and obligations on the parties to it as if it were in the form of a contract. The IPSASB concluded that this term is required to address the circumstances addressed in this Standard, and has provided guidance in paragraph 3(a) on circumstances that give rise to binding arrangements, consistent with other IPSASs.

Recognition of a Service Concession Asset and a Liability

- BC10. The main accounting issue in service concession arrangements is whether the grantor should recognize a service concession asset and a related liability.
- BC11. 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 service concession arrangements because the primary purpose of a service concession asset 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 service concession asset.
- BC12. The IPSASB also questioned whether sufficiently objective criteria could be established for assessing risks and rewards to enable consistent results to be determined. In addition, weighting of various risks and rewards was seen to be problematic.

- BC13. The IPSASB also considered whether a rights and obligations approach was appropriate. Although such an approach could have conceptual merit, the IPSASB believes that it would represent a significant change in the accounting and financial reporting of assets and liabilities for public sector entities that could have implications beyond service concession arrangements. 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.
- BC14. 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 service concession asset at the end of the term of the arrangement. Consistent with IFRIC 12, in the case of whole-of-life assets, only condition (a) must be met for recognition of a service concession asset. The IPSASB concluded that it was important to stress that a service concession arrangement is a binding arrangement. Accordingly, the assessment of whether a service concession asset should be recognized is made on the basis of all of the facts and circumstances of the arrangement.
- BC15. When the grantor recognizes a service concession 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 and a performance obligation.
- BC16. 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 portions that reduce the liability, an imputed finance charge and charges for services provided by the operator under the service concession arrangement.
- BC17. The IPSASB concluded that a performance obligation arises in cases when the grantor grants the operator the right to earn revenues, either from the service concession asset or from another asset because the grantor has received exchange consideration (i.e., an inflow of resources in the form of the service concession asset) in advance of its performance under the exchange (i.e., its obligation to provide the operator access to the service concession asset or another revenue-generating asset).
- BC18. The IPSASB considered whether the grantor should recognize the operating expenses in the circumstances described in paragraph BC17. The IPSASB noted that the grantor's performance obligation recognized relates solely to the service concession asset recognized by the grantor. 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 service concession arrangement in the circumstances described in paragraph BC17.

Accounting Issues Addressed in other IPSASs

BC19. Because of the complexity of many service concession arrangement 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 a component of a service concession arrangement, 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 service concession arrangements. To ensure consistent implementation of this Standard, the IPSASB provided specific guidance on how the principles in the other IPSAS would be applied.

Transition

BC20. This Standard requires an entity that has previously recognized service concession assets and related liabilities, revenues, and expenses to apply this Standard retrospectively in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors." The Standard also requires an entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting to apply this Standard prospectively, although retrospective application is permitted in such cases. 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 a grantor's statement of financial position, but that retrospective remeasurement of service concession assets might not always be practicable, particularly if an entity has not previously recognized service concession assets and related liabilities, revenues, and expenses.

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.

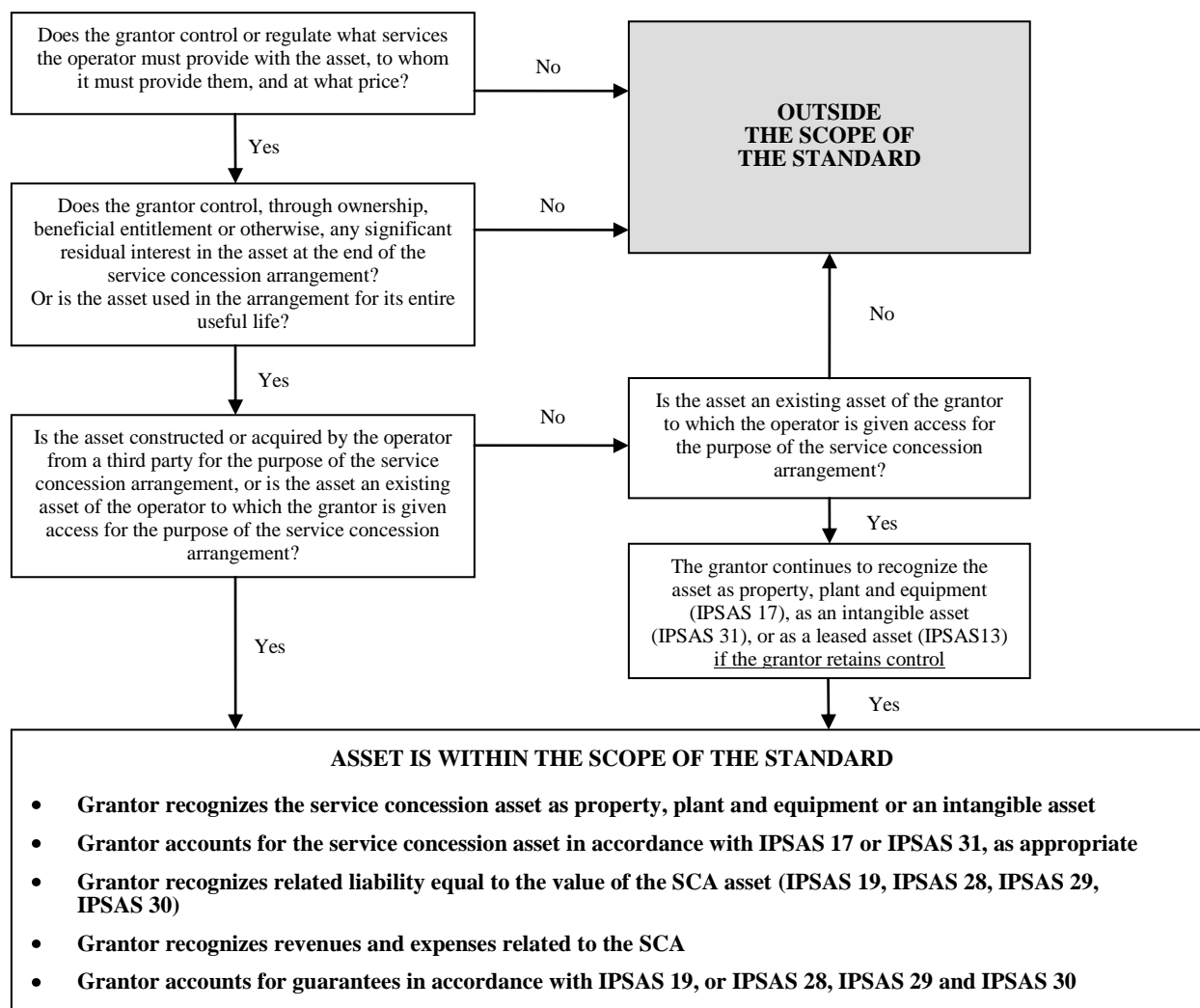
Implementation Guidance

This 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 (ED 43).

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 license)
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 13	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) IPSAS 9 (revenue recognition)	

Illustrative Examples

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

These examples deal with only three 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 Three Examples)

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

These terms are common to the three 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 conditions for recognition of a service concession asset in paragraph 10 (or paragraph 11 for a whole-of-life asset).
- 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 service concession asset or another revenue-generating asset granted to the operator by the grantor.
- IE3. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in IPSAS 17 when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs.³ 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 service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession 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 service concession 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

³ If this was not the case (e.g., where the operator might resurface in future, or might incur additional maintenance over the period of the service concession arrangement), it might not be appropriate to recognize a component.

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 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. 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). There is no impairment in the value of the road over the term of the service concession arrangement.
- IE7. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.
- IE8. It is assumed that all cash flows take place at the end of the year.
- IE9. It is assumed that the time value of money is not significant. Paragraph AG46 provides guidance on methods that may be appropriate 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 three examples is inclusive of each of the components of the service concession 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 components of the arrangement (currency units)

Contact Component	Fair Value
Road – base layers	973
Road – surface layers	110
Total FV of road	1,083
Annual service component	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 service concession 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 component of the service concession arrangement 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. In addition, Table 1.4 shows the changes in the financial liability.

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 service concession 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
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	91	73
Total Service concession 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 in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession 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 service concession asset.

Table 1.4 Changes in Financial Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	1,083	961	832	695	550	396	343	177
Liability recognized along with initial service concession asset	–	1,083	–	–	–	–	–	–	–	–
Portion 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 service concession 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 service concession 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 access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement.
- IE24. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. 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 service concession arrangement. 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. In addition, Table 2.4 shows the changes in the performance obligation.

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 service concession 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
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	91	73
Total Service concession 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 in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession 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 service concession asset.

Table 2.4 Changes in Performance Obligation (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	1,083	934	785	636	487	338	299	149
Liability recognized along with initial service concession 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 service concession 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 service concession 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 service concession arrangement.
- 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 component of the service concession arrangement 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 service concession arrangement 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 service concession arrangement 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 of the compensation 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. In addition, Table 3.4 shows the changes in the performance obligation and Table 3.5 shows the changes in the financial liability.

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

Table 3.1 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 Statement of financial performance (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
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 service concession 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
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession 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 in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession 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 service concession asset.
4. 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 service concession asset.

Table 3.4 Changes 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 Service concession 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 Changes in Financial Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	541	480	416	347	275	198	171	88
Liability recognized along with initial Service concession asset	–	541	–	–	–	–	–	–	–	–
Portion 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	–



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 www.ifac.org