national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 32 – Service Concession Arrangements: Grantor

Effective 1 April 2021

DEFINITIONS

A service concession arrangement is a contractual arrangement between a grantor and an operator in which:
- The operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time, and
- The operator is compensated for its services over the period of the service concession arrangement

A **grantor** is the entity that grants the right to use the service concession asset to the operator.

SCOPE

Does the grantor control or regulate what services the operator must provide with the service concession asset, to whom it must provide them, and at what price?
- No → Apply relevant Standard of GRAP
- Yes ↓

Does the grantor control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the service concession asset at the end of the service concession arrangement? Or is the service concession asset is used in the arrangement for its entire economic life?
- No → Apply relevant Standard of GRAP
- Yes ↓

Is the service concession asset constructed, developed or acquired by the operator from a third party for the purpose of the service concession arrangement, or it is an existing asset of the operator which becomes the service concession asset as part of the service concession arrangement?
- No → Apply relevant Standard of GRAP
- Yes → Apply GRAP 32
- No ↓

Is the service concession asset is an existing asset of the grantor to which the operator is granted access for the purpose of the service concession arrangement?
- Yes → Apply GRAP 32
- No → Apply relevant Standard of GRAP

RECOGNITION AND MEASUREMENT OF A SERVICE CONCESSION ASSET

New asset:
Recognise a new service concession asset at fair value, where the asset is constructed or developed apply relevant GRAP to account for costs

Existing asset of grantor:
Reclassify existing asset as a service concession asset, clearly identified from owned and/or leased assets. Not remeasured

RECOGNITION AND MEASUREMENT OF LIABILITIES

New asset → recognise a liability
Initially measured at the same amount of the new asset, adjusted by the amount of any consideration from the grantor to the operator or from the operator to the grantor

Existing asset of grantor → no liability
Where an existing asset of the grantor is reclassified, no liability except where additional consideration is provided by the grantor to the operator

The nature of the liability is based on the nature of the consideration exchanged between the grantor and the operator…

FINANCIAL LIABILITY MODEL
(grantor makes payments to the operator)

Where the grantor **has an unconditional obligation** to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset
- Liability is classified as a financial liability
- Grantor allocates the payments as a reduction in the liability, finance charges are recognised as an expense
- Separate payments between amounts for asset and services with reference to the relative fair value of the asset and service component (else use estimation technique)
- Service component of payments is ordinarily recognised evenly over the term of the arrangement
- Where specific expenses are separately compensated, they are recognised when incurred

If the grantor pays for the construction, development, acquisition or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, an entity accounts for each part separately

GRANT OF A RIGHT TO THE OPERATOR MODEL
(grantor makes no payments to the operator)

Where the grantor **does not have an unconditional obligation** to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue generating asset
- Liability represents unearned revenue from the exchange of assets between the grantor and the operator
- Revenue is recognised according to the substance of the service concession arrangement, and the liability is reduced as revenue is recognised

Grantor accounts for other revenues, liabilities, contingent liabilities and contingent assets in accordance with the relevant Standard of GRAP