ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

SERVICE CONCESSION ARRANGEMENTS: GRANTOR

(GRAP 32)

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Accounting Standards Board

August 2013

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Service Concession Arrangements: Grantor* is based on the International Public Sector Accounting Standard (IPSAS) 32 on *Service Concession Arrangements: Grantor* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

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SERVICE CONCESSION ARRANGEMENTS: GRANTOR

This Standard was originally issued by the Accounting Standards Board (the Board) in August 2013. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in March 2020.

Introduction

This pronouncement is set out in paragraphs .01 to .33A. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

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

Scope (see Appendix A paragraphs AG1. to AG5.)

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.

.03 Arrangements within the scope of this Standard involve the operator providing a mandated function related to the service concession asset on behalf of the grantor. The operator providing the mandated function can either be a private party or another public sector entity.

.04 Arrangements outside the scope of this Standard are those that do not involve the delivery of a mandated function and arrangements that involve the provision or management of services where the asset is not controlled by the grantor (e.g. outsourcing, service contracts, or privatisation).

.05 This Standard does not specify the accounting by operators (guidance on accounting for service concession arrangements by the operator can be found in the IFRIC Interpretation on *Service Concession Arrangements* (IFRIC 12)).

Definitions (see Appendix A paragraphs AG06. to AG10.)

.06 The following terms are used in this Standard with the meanings specified:

A <u>grantor</u> (for the purposes of this Standard), is the entity that grants the right to use the service concession asset to the operator.

A <u>mandated function</u> involves the delivery of a public service by an operator on behalf of a grantor that falls within the grantor's mandate.

An <u>operator</u> (for the purposes of this Standard), is the entity that uses the service concession asset to provide a mandated function subject to the grantor's control of the asset.

A <u>service concession arrangement</u> is a contractual arrangement between a grantor and an operator in which:

(a) the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and

(b) the operator is compensated for its services over the period of the service concession arrangement.

A <u>service concession asset</u> is an asset used to provide a mandated function in a service concession arrangement that:

(a) is provided by the operator which:

(i) the operator constructs, develops, or acquires from a third party; or

(ii) is an existing asset of the operator; or

(b) is provided by the grantor which:

(i) is an existing asset of the grantor; or

(ii) is an upgrade to an existing asset of the grantor.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Recognition and measurement of a service concession asset (see Appendix A paragraphs AG11. to AG41.)

.07 The grantor shall recognise an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

(a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and

(b) the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

.08 This Standard applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset) if the conditions in paragraph .07(a) are met.

.09 The grantor shall initially measure the service concession asset recognised in accordance with paragraph .07 (or paragraph .08 for a whole-of-life asset) at its fair value, except as noted in paragraph .10.

.10 Where an existing asset of the grantor meets the conditions specified in paragraphs .07(a) and .07(b) (or paragraph .08 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted for in accordance with the Standards of GRAP on Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17), Intangible Assets (GRAP 31), or Heritage Assets (GRAP 103), as appropriate.

.11 After initial recognition or reclassification, service concession assets shall be clearly identified from other assets within the same asset category, and shall be clearly identified from owned and/or leased assets.

Recognition and measurement of liabilities (see Appendix A paragraphs AG42. to AG51.)

.12 ***Where the grantor recognises a service concession asset in accordance with paragraph .07 (or paragraph .08 for a whole-of-life asset), the grantor shall also recognise a liability. The grantor shall not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph .10, except in circumstances where additional consideration is provided by the operator, as noted in paragraph .13.***

.13 ***The liability recognised in accordance with paragraph .12 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph .09, adjusted by the amount of any other consideration (e.g. cash) from the grantor to the operator, or from the operator to the grantor.***

.14 The nature of the liability recognised is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the contractual arrangement.

.15 In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:

(a) making payments to the operator (the "financial liability" model);

(b) compensating the operator by other means (the "grant of a right to the operator" model) such as:

(i) granting the operator the right to earn revenue 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. the operation of a private ward in a hospital where the remainder of the hospital is used by the grantor to treat public patients).

Financial liability model (see Appendix A paragraphs AG43. to AG48.)

.16 ***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, the grantor shall account for the liability recognised in accordance with paragraph .12 as a financial liability.***

.17 The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

(a) specified or determinable amounts; or

(b) the shortfall, if any, between amounts received by the operator from users of the mandated function and any specified or determinable amounts referred to in paragraph .17(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

.18 The Standard of GRAP on *Financial Instruments* (GRAP 104) applies to the financial liability recognised under paragraph .12.

.19 The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognised in accordance with paragraph .12, a finance charge, and charges for services provided by the operator.

.20 The finance charge and charges for services provided by the operator in a service concession arrangement determined in accordance with paragraph .19 shall be accounted for as expenses.

.21 Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator shall be allocated by reference to the relative fair values of the service concession asset and the services. Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator is determined using estimation techniques.

Grant of a right to the operator model (see Appendix A paragraphs AG49. to AG50.)

.22 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, the grantor shall account for the liability recognised in accordance with paragraph .12 as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.

.23 The grantor shall recognise revenue and reduce the liability recognised in accordance with paragraph .22 according to the substance of the service concession arrangement.

.24 Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue generating asset, the exchange is regarded as a transaction that generates revenue (see the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9)). As the right granted to the operator is effective for the period of the service concession arrangement, the grantor does not recognise revenue from the exchange immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned. The revenue is recognised according to the substance of the service concession arrangement, and the liability is reduced as revenue is recognised.

Dividing the arrangement (see Appendix A paragraph AG51.)

.25 ***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, it is necessary to account separately for each part of the total liability recognised in accordance with paragraph .12. The amount initially recognised for the total liability shall be the same amount as that specified in paragraph .13.***

.26 ***The grantor shall account for each part of the liability referred to in paragraph .25 in accordance with paragraphs .16 to .24.***

Other liabilities, contingent liabilities and contingent assets (see Appendix A paragraphs AG52. to AG54.)

.27 ***The grantor shall account for other liabilities, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (GRAP 19) and GRAP 104.***

Other revenues (see Appendix A paragraphs AG55. to AG64.)

.28 ***The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs .22 to .24, in accordance with GRAP 9.***

Presentation and disclosure (see Appendix A paragraphs AG65. to AG67.)

.29 ***The grantor shall present information in accordance with the Standard of GRAP on Presentation of Financial Statements (GRAP 1).***

.30 ***A grantor shall disclose the following information for each material service concession arrangement and in aggregate for individually immaterial service concession arrangements that are material collectively in each reporting period:***

(a) A description of the overall objective and purpose of the service concession arrangement.

(b) Significant terms of the service concession 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) the carrying amount of service concession assets recognised at the reporting date, 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 service concession assets); and

(vii) obligations to provide the operator with access to service concession assets or other revenue-generating assets.

(d) Changes in the service concession arrangement that occurred during the reporting period.

(e) A description of any contract breach by either party during the reporting period and the impact thereof for the grantor.

.31 The disclosures required in accordance with paragraph .30 are provided as part of the existing category of assets, i.e. investment property, property, plant and equipment, intangible assets or heritage assets. The service concession assets should be clearly identified from owned and/or leased assets. The disclosure requirements should be provided individually for each material service concession asset or in aggregate for immaterial service concession assets under the existing asset categories disclosed in the grantor's financial statements.

Transitional provisions

Initial adoption of the Standards of GRAP

.32 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Effective date

Initial adoption of the Standards of GRAP

.33 ***This Standard becomes effective for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999 (PFMA), as amended.***

Entities already applying Standards of GRAP

.33A ***Paragraph .30 was amended by the Improvements to the Standards of GRAP (2020) issued March 2020. These amendments are effective for annual periods beginning on or after 1 April 2023. An entity shall apply these amendments retrospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity elects to apply this amendment earlier, it shall disclose this fact.***

Appendix A - Application guidance

This appendix is an integral part of this Standard.

Scope (see paragraphs .02 to .05)

AG1. This Standard applies to 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. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity.

AG2. Legislation deals with the establishment and functioning of public-private partnership (PPP) agreements in the public sector environment. The Treasury Regulations, issued under the PFMA, defines a "public-private partnership" as a commercial transaction between an institution and a private party in terms of which the private party:

(a) performs an institutional function on behalf of the institution; and/or

(b) acquires the use of state property for its own commercial purposes; and

(c) assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or the use of state property; and

(d) receives a benefit for performing the institutional function or from utilising the state property, either by way of:

(i) consideration to be paid by the institution which it derives from a Revenue Fund or, where the institution is a national government business enterprise or provincial government business enterprise, from the revenues of such institution;

(ii) charges or fees to be collected by the private party from users or customers of a service provided to them; or

(iii) a combination of such consideration and such charges or fees.

AG3. The definition of a PPP agreement in the Regulations issued under the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA), is similar to the definition in the Treasury Regulations to the PFMA. The MFMA Regulations define a PPP agreement as a commercial transaction between a municipality and a private party in terms of which the private party:

(a) performs a municipal function for or on behalf of a municipality or acquires the management or use of municipal property for its own commercial purposes, or both performs a municipal function for or on behalf of a municipality and acquires the management or use of municipal property for its own commercial purposes; and

(b) assumes substantial financial technical and operation risks in connection with:

(i) the performance of the municipal function;

(ii) the management or use of the municipal property; or

(iii) both; and

(c) receives a benefit for performing the municipal function or from utilising the municipal property or from both, by way of:

(i) consideration to be paid or given by the municipality or a municipal entity under the sole or shared control of the municipality;

(ii) charges or fees to be collected by the private party from users or customers of a service provided to them; or

(iii) a combination of the benefits referred to in subparagraphs (i) and (ii).

AG4. PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of this Standard. Any other arrangements that meet the control criteria as set out in paragraph .07 should also apply the principles in this Standard in accounting for such arrangements.

AG5. The diagram below summarises the steps to be followed in determining the accounting principles to be applied in accounting for service concession arrangements.

Are both the recognition criteria for a service concession asset met?

- the grantor controls or regulates what services the private party must provide with the asset, to whom it must provide them and at what price; and
- the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the service concession asset at end of the term of the arrangement.

Yes

Grantor recognises service concession asset and associated for liability in accordance with this Standard

(Refer to diagram included in Implementation Guidance (IG2.) that provides guidance on how the grantor should account for the service concession asset and related liability)

No

Consider the principles in the Interpretation of the Standards of GRAP on *Determining Whether an Arrangement Contains a Lease* (IGRAP 3) to determine whether the arrangement constitute a finance or an operating lease.

Does the agreement constitute a lease in terms of IGRAP 3?

Yes

Apply principles in the Standard of GRAP on *Leases* (GRAP 13)

No

Does the grantor control – through ownership, beneficial entitlement or otherwise – any significant residual interest in the service concession asset at end of arrangement?

Yes

Apply principles in the Interpretation of the Standards of GRAP on *Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset*

No

Grantor expenses payments made to operator by applying principles in the *Framework for the Preparation and Presentation of Financial Statements*[2]

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Definitions (see paragraph .06)

AG6. Paragraph .06 defines a service concession arrangement. Common features of a service concession arrangement are:

(a) 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;

(b) the arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement;

(c) 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;

(d) the arrangement is governed by a contractual arrangement entered into, that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes;

(e) the arrangement may stipulate the level or standards of the services required during the period and any assets to be used in providing such a service; and

(f) the arrangement may govern the design, building and financing of an asset to be used by the operator. The arrangement may place restrictions on how the service concession asset should be used.

AG7. The definition of a public-private partnership agreement as defined in legislation (see paragraphs AG2. and AG3.) refers to "private party" and "entity". This Standard uses the terms "operator" and "grantor". The terminology used in legislation has a similar meaning to that used in this Standard.

AG8. The International Public Sector Accounting Standard on *Service Concession Arrangements: Grantor* (IPSAS 32) uses the term "public service" to describe the functions that the operator is performing on behalf of the grantor. Paragraph .06 uses the term "mandated function" and defines it as the delivery of a public service by an operator on behalf of a grantor that falls within the grantor's mandate.

AG9. The PFMA and the MFMA define a PPP agreement to include an institutional or municipal function that requires the operator to perform a function on behalf of the grantor, or allows the operator to acquire the management or use of a property for its own commercial purpose. These types of arrangements are both captured within the term "mandated function" in describing the types of PPP agreements that fall within the scope of this Standard.

AG10. Paragraph .06 defines 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 a mandated function.

Recognition and initial measurement of a service concession asset (see paragraphs .07 to .11)

Recognition of a service concession asset

AG11. The assessment of whether a service concession asset should be recognised in accordance with paragraph .07 (or paragraph .08 for a whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

AG12. The control or regulation referred to in paragraph .07(a) could result from a contractual arrangement, 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 contractual arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement. When the contractual arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph .07(a) regarding control in relation to those to whom the operator must provide services.

AG13. For the purpose of paragraph .07(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, or in the contractual arrangement, or a third party regulator that regulates other entities that operate in the same industry or sector (e.g. roads or in providing electricity) 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.

AG14. Many governments have the power to regulate the behaviour of entities operating in certain sectors of the economy, either directly, or through specifically created agencies. For the purpose of paragraph .07(a), the broad regulatory powers described above do not constitute control. In this Standard, the term "regulate" is intended to be applied only in the context of the specific terms and conditions of the service concession arrangement. For example, the department of transport, which is the regulator of the rail service, may determine rates that apply to the rail industry as a whole. Such rates may be implicit in the contractual arrangement governing a service concession arrangement involving the provision of railway transportation, or they may be specifically referred to therein. However, in both cases, the control of the service concession asset is derived from the contractual arrangement and not from the fact that the arrangement is entered into with a grantor that is related to the regulator of the rail service.

AG15. For the purpose of paragraph .07(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 service concession 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 service concession arrangement.

AG16. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph .07(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.

AG17. The conditions in paragraphs .07(a) and .07(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 .07(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.

AG18. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph .07(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 the Standard of GRAP on *Impairment of Cash-generating Assets* (GRAP 26) is analysed separately to determine whether the condition set out in paragraph .07(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 .07(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

AG19. The operator may have a right to use the separable asset described in paragraph AG18(a)., or the facilities used to provide ancillary unregulated services described in paragraph AG18(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 GRAP 13.

Existing asset of the grantor

AG20. 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.

AG21. The requirement in paragraph .09 is to measure assets recognised in accordance with paragraph .07 (or paragraph .08 for a whole-of-life asset) initially at fair value. Existing assets of the grantor used in the service concession arrangement are reclassified rather than recognised under this Standard. Only an upgrade to an existing asset of the grantor (e.g. that increases its capacity) is recognised as a service concession asset in accordance with paragraph .07, or paragraph .08 for a whole-of-life asset).

AG22. In applying the impairment tests in GRAP 16, GRAP 17, GRAP 31 and GRAP 103, 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 the Standard of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) or GRAP 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG23. If the asset no longer meets the conditions for recognition in paragraph .07 (or paragraph .08 for a whole-of-life asset), the grantor follows the derecognition principles in GRAP 16, GRAP 17, GRAP 31 and GRAP 103, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognised. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognised. 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 GRAP 13.

AG24. 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 .07 (or paragraph .08 for a whole-of-life asset). If those conditions are met, the upgrade is recognised and measured in accordance with this Standard.

Existing asset of the operator

AG25. The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired. If the arrangement involves an existing asset of the operator which the operator uses for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph .07 (or paragraph .08 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognises the asset as a service concession asset and accounts for it in accordance with this Standard.

Constructed or developed asset

AG26. Where a constructed or developed asset meets the conditions in paragraph .07 (or paragraph .08 for a whole-of-life asset) the grantor recognises and measures the asset in accordance with this Standard. GRAP 16, GRAP 17, GRAP 31 and GRAP 103, as appropriate, set out the criteria for when a service concession asset should be recognised. GRAP 16, GRAP 17, GRAP 31 and GRAP 103 require that an asset shall be recognised if, and only if:

(a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) the cost or fair value of the item can be measured reliably.

AG27. Those criteria, together with the specific terms and conditions of the contractual arrangement, need to be considered in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. For investment property, property, plant, and equipment, intangible assets and heritage assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognise the service concession asset during that period.

AG28. The first recognition criterion requires the flow of economic benefits or service potential to the grantor. From the grantor’s point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the grantor. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the contractual arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

AG29. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in GRAP 16, GRAP 17, GRAP 31 and GRAP 103, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset’s construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in GRAP 16, GRAP 17 and GRAP 103 for constructed assets or in GRAP 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar contractual arrangement, the costs are recognised as progress is made towards completion of the asset. Thus, the grantor recognises a service concession asset and an associated liability.

Measurement of service concession assets

AG30. Paragraph .09 requires service concession assets recognised in accordance with paragraph .07 (or paragraph .08 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph .09 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph .10. The use of fair value on initial recognition does not constitute a revaluation under GRAP 16, GRAP 17 and GRAP 31.

AG31. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

(b) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in GRAP 16, GRAP 17, GRAP 31 and GRAP 103.

Types of compensation

AG32. Service concession arrangements are rarely if ever the same; technical requirements vary by sector. Furthermore, the terms of the arrangement may also depend on the specific features as required by the overall legal framework.

AG33. Depending on the terms of the service concession arrangement, the public grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) making payments (e.g. cash) to the operator;

(b) compensating the operator by other means, such as:

(i) granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) granting the operator access to another revenue-generating asset for its use.

AG34. Where the grantor compensates the operator for the service concession asset by making payments to the operator, the asset and service components of the payments may be separable (e.g. the contractual arrangement specifies the amount of the predetermined series of payments to be allocated to the service concession asset) or inseparable.

Separable payments

AG35. 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.

AG36. GRAP 16, GRAP 17, GRAP 31 and GRAP 103 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

Inseparable payments

AG37. Where the asset and service component of payments by the grantor to the operator are not separable, the fair value in paragraph .09 is determined using estimation techniques.

AG38. 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 service concession asset and those for other components of the agreement 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 the fair value of 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

AG39. The types of transactions referred to in paragraph .15(b) are non-monetary exchange transactions. Paragraph .41 in GRAP 16, paragraph .29 in GRAP 17 and paragraph .41 in GRAP 31, as appropriate, provide guidance on these circumstances.

AG40. When the operator is granted the right to earn revenue from third-party users of the service concession asset, or another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the service concession asset. These forms of compensation to the operator are intended to compensate the operator both for the cost of the service concession asset 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 .09.

Subsequent measurement

AG41. After initial recognition, a grantor applies GRAP 16, GRAP 17, GRAP 31 and GRAP 103 to the subsequent measurement and derecognition of a service concession asset. For the purposes of applying GRAP 16, GRAP 17, GRAP 31 and GRAP 103, service concession assets should be treated as a separate class of assets. GRAP 21 and GRAP 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognised or classified as service concession assets in accordance with this Standard.

Recognition and measurement of liabilities (see paragraphs .12 to .26)

AG42. The grantor recognises a liability in accordance with paragraph .12 only when a service concession asset is recognised in accordance with paragraph .07 (or paragraph .08 for a whole-of-life asset). The nature of the liability recognised in accordance with paragraph .12 differs in each of the circumstances described in paragraph AG31. according to its substance.

The financial liability model (see paragraphs .16 to .21)

AG43. When the grantor has an unconditional obligation to make a predetermined series of payments to the operator, the liability is a financial liability as defined in GRAP 104. The finance charge specified in paragraph .19 is also determined in accordance with GRAP 104.

AG44. 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, an amount reflecting the portion of the predetermined series of payments that pertains to the asset is recognised as a liability in accordance with paragraph .12. This liability does not include the finance charge and service components of the payments specified in paragraph .19.

AG45. Where the grantor makes any payments to the operator in advance of the service concession asset being recognised, the grantor accounts for those payments as prepayments.

AG46. 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.

AG47. The finance charge related to the liability in a service concession arrangement is presented consistently with other finance charges in accordance with GRAP 104.

AG48. The service component of payments determined in accordance with paragraph .19 is ordinarily recognised 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 recognised as incurred.

Grant of a right to the operator model (see paragraphs .22 to.24)

AG49. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset, the operator is granted the right to earn revenue over the period of the service concession arrangement. Likewise, the grantor earns the benefit associated with the assets received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement. Accordingly, the revenue is not recognised immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned. Revenue is recognised and the liability reduced in accordance with paragraph .23 based on the substance of the service concession arrangement, for example as access to the service concession asset is provided to the operator over the term of the service concession arrangement. As described in paragraph AG33., the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In such cases, if the operator's right to earn such 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).

AG50. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognised and the liability recognised in accordance with paragraph .24 is reduced in a manner similar to that described in paragraph AG49. In such cases, the grantor also considers the derecognition requirements in GRAP 16, GRAP 17, GRAP 31 and GRAP 103, as appropriate.

Dividing the arrangement (see paragraphs .25 to .26)

AG51. 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 third-party use of either the service concession asset or 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 liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or another revenue-generating asset. Each portion of the liability is recognised initially at the fair value of the consideration paid or payable.

Other liabilities, contingent liabilities and contingent assets (see paragraph .27)

AG52. 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, development, acquisition, or upgrade of a service concession asset), or performance guarantees (e.g. guarantee of minimum revenue streams, including compensation for shortfalls).

AG53. Certain guarantees made by a grantor may meet the definition of a financial guarantee 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 and applies GRAP 19 in accounting for the guarantee.

AG54. Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with GRAP 19.

Other revenues (see paragraph .28)

AG55. The operator may compensate the grantor for access to the service concession asset in terms of the provisions of the service concession arrangement by providing the grantor with a series of predetermined inflows of resources, including the following:

(a) an upfront payment or a stream of payments;

(b) revenue-sharing provisions;

(c) a reduction in a predetermined series of payments the grantor is required to make to the operator; and

(d) rental payments for providing the operator access to a revenue-generating asset.

AG56. 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 GRAP 9. The timing of the revenue recognition is determined based on the substance of the service concession arrangement, for example as access to the service concession asset is provided to the operator over the term of the service concession arrangement.

AG57. 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 earn the revenue from third-party use of the service concession asset, or another revenue-generating asset, any portion of the payments received from the operator not earned in the accounting period is recognised as a liability until the conditions for revenue recognition are met.

AG58. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognised in accordance with paragraph .28.

AG59. 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 recognising revenue associated with the inflows specified in the contractual arrangement that better reflect the operator's 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 recognises 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.

AG60. When an upfront payment is received from the operator, the revenue is recognised in a way that best reflects the operator's economic consumption of its access to the service concession asset and/or the time value of money. For example, when the operator is required to pay annual instalments over the term of the service concession arrangement, or predetermined sums for specific years, the revenue is recognised over the specified term.

AG61. For service concession arrangements under which the operator is granted the right to earn revenue 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 recognised on the same basis as the liability is reduced. 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.

AG62. The grantor recognises 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 GRAP 19 to determine when the contingent event has occurred.

AG63. 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 recognised as the liability is reduced.

AG64. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognised in accordance with the Standard of GRAP on *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Presentation and disclosure (see paragraphs .29 to .31)

AG65. Disclosures relating to various aspects of service concession arrangements may be addressed in existing Standards of GRAP. This Standard addresses only the additional disclosures relating to service concession arrangements. Where the accounting for a particular aspect of a service concession arrangement is addressed in another Standard of GRAP, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph .30.

AG66. GRAP 1 requires finance costs to be presented separately in the statement of financial performance. The finance charge determined in accordance with paragraph .19 is included in this item.

AG67. In addition to the disclosures outlined in paragraphs .29 to .31, the grantor also applies the relevant presentation and disclosure requirements in other Standards of GRAP as they pertain to assets, liabilities, revenues, and expenses recognised under this Standard.

Appendix B – Implementation guidance

This guidance accompanies, but is not part of, this Standard.

IG1. The purpose of this implementation guidance is to illustrate certain aspects of the requirements of this Standard.

Accounting framework for service concession arrangements

IG2. The diagram below summarises the accounting for service concession arrangements established in this Standard.

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

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 used in the arrangement for its entire economic life?

No

OUTSIDE THE SCOPE OF THIS STANDARD

(Refer to diagram included in Application Guidance (AG5.) that provides guidance on the accounting principles to be applied when the control approach criteria are not met)

Yes

No

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 is the asset an existing asset of the operator which becomes the service concession asset as part of the service concession arrangement?

No

Is the service concession asset an existing asset of the grantor to which the operator is granted access for the purpose of the service concession arrangement?

Yes

Yes

WITHIN THE SCOPE OF THIS STANDARD

- **Grantor recognises a service concession asset, or the grantor reclassifies investment property, an item of property, plant and equipment, an intangible asset, a heritage asset or a leased asset as a service concession asset from the other assets within the same asset category.**
- **Grantor accounts for the service concession asset as investment property, property, plant and equipment, an intangible asset, or a heritage asset in accordance with GRAP 16, GRAP 17, GRAP 31 or GRAP 103, as appropriate.**
- **Grantor follows impairment testing as set out in GRAP 21 and GRAP 26.**
- **Grantor recognises related liability equal to the value of the service concession asset (GRAP 9 and GRAP 104).**
- **Grantor recognises revenue and expenses to the service concession arrangement.**

References to Standards of GRAP that apply to typical types of arrangements involving an asset combined with provision of a service

IG3. The table sets out the typical types of arrangements for private sector participation in the provision of a mandated function and provides references to the Standards of GRAP 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 Board's intention to convey the impression that bright lines exist between the accounting requirements for various types of arrangements.

IG4. Shaded text shows arrangements within the scope of this Standard.

Category	**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/ Privatisation/ 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 binding arrangement or licence)
Residual interest	Grantor				Operator	
Applicable Standards of GRAP	GRAP 13	GRAP 1	This Standard/ GRAP 16/ GRAP 17/ GRAP 31/ GRAP 103		GRAP 16/ GRAP 17/ GRAP 31/ GRAP 103 (derecognition) GRAP 9 (revenue recognition)	

Basis for conclusions

This basis for conclusions gives the Accounting Standards Board's (Board's) reasons for accepting or rejecting certain proposals related to the accounting for service concession arrangements. This basis for conclusions accompanies, but is not part of, this Standard.

Background

BC1. The Board approved and issued its Guideline on *Accounting for Public-Private Partnerships* (PPP Guideline) in November 2008. The PPP Guideline outlines the Board's views on accounting for PPPs by a public sector grantor and incorporates principles where relevant from Standards of GRAP, IFRS® Accounting Standards and IFRIC® Interpretations. The PPP Guideline is applicable to:

- assets that the private party needs to construct, develop or acquire from a third party to perform the requirements under the PPP agreement; and
- existing assets to be used in terms of the PPP agreement.

BC2. In developing the PPP Guideline, the Board considered the principles in IFRIC 12, because no public sector guidance was available at that time. The Board agreed to reconsider its PPP Guideline once the International Public Sector Accounting Standards Board (IPSASB) issued its pronouncement dealing with service concession arrangements (SCA) (or public-private partnership agreements as referred to in the PPP Guideline).

BC3. The IPSASB issued IPSAS 32 during October 2011 and the Board therefore added a project to the work programme to review the PPP Guideline.

Scope

BC4. The establishment and functioning of a public-private partnership agreement in the South African environment can only be governed and regulated through the PFMA or the MFMA, and the Regulations issued under the PFMA and MFMA. The Board has agreed that the principles in this Standard should not only apply to arrangements entered into in terms of this legislation, but should have a wider scope.

BC5. This Standard should therefore be applied to any contractual arrangement between a grantor and an operator where the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time.

BC6. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity that provides a mandated function on behalf of a grantor.

South African public sector terminology

Binding arrangement

BC7. GRAP 104 requires that, in determining whether an arrangement is, in substance, contractual, an entity would establish whether an arrangement meets the basic characteristics of a contract outlined in GRAP 104 Appendix A paragraph AG29., i.e. the arrangement is entered into by willing parties, the arrangement establishes rights and obligations for either party and, performance or actions as a result of non-performance are enforceable by law.

BC8. IPSAS 32 uses the term "binding arrangement" in describing the relationship and agreement between the grantor and operator. The Standard of GRAP on *Interests in Joint Ventures* uses the term binding arrangement to convey the notion that an arrangement may take the form of a legal contract, but acknowledges that the arrangement may also confer similar rights and obligations on the parties to it as if it were in the form of a contract.

BC9. As the GRAP 104 characteristics are all present in service concession arrangements entered into between a grantor and an operator, the Board agreed that it is more appropriate to refer to a "contractual arrangement" than to a "binding arrangement".

Mandated function

BC10. IPSAS 32 uses "a public service" to describe the functions that an operator is performing on behalf of the grantor.

BC11. The PFMA defines a "public-private partnership agreement" as a commercial transaction between an institution (public sector entity) and a private party in terms of which the private party performs an institutional function on behalf of the public sector entity, or where the private party acquires the use of state property. In an institutional function, the private party will perform part of the public sector entity's service delivery or administrative functions and assume the associated risks, whereas in a PPP agreement that involves the use of state property, the private party will use the PPP asset for its own commercial purposes.

BC12. The MFMA Regulations defines a "public-private partnership agreement" in a similar manner but refers to a municipal function that is performed for, or on behalf of a municipality, by the private party. The MFMA definition also recognises that the private party can acquire the management or use of municipal property for its own commercial purpose.

BC13. The Board has agreed to use the term "mandated function" to describe the types of functions and services that an operator can perform on behalf of a grantor that will fall within the scope of this Standard*.* The types of agreements identified in terms of legislation, i.e. an institutional function and the use of state property are both captured in the term "mandated function".

Assets within the scope of this Standard

BC14. The principles in IPSAS 32 apply to property, plant and equipment and intangible assets that are used to provide a mandated function in a service concession arrangement.

BC15. The PPP Guideline, however, also applied to the development, construction or acquisition of inventory, investment property and heritage assets in addition to property, plant and equipment and intangible assets, as the development, construction or acquisition of these assets were common in South African PPP agreements.

BC16. The Board therefore agreed to extend the principles in this Standard to investment property and heritage assets. Inventory is normally a consequence of entering into a service concession arrangement as it forms part of the operation of the service concession arrangement. Inventory is therefore not included in the scope of this Standard.

Interest rate used to determine the finance charge in the financial liability model

BC17. IPSAS 32 requires the grantor to recognise a financial liability under the service concession arrangement to the extent that it 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 (i.e. the financial liability model).

BC18. The PPP Guideline required the grantor to apply the principles in GRAP 104 in calculating the finance charge portion under the financial liability model. GRAP 104 requires an entity to determine a market related interest rate by considering the type of transaction and the counterparty involved. This means that an entity would use a rate for a similar transaction with similar terms, adjusted for the credit risk of the counterparty involved.

BC19. The guidance provided in the PPP Guideline was similar to the guidance that an operator applies in IFRIC 12 in that IFRIC 12 requires the operator to apply the principles in the IAS Standards on *Financial Instruments: Presentation*, *Financial Instruments: Recognition and Measurement*, and the IFRS Standards on *Financial Instruments: Disclosures* and *Financial Instruments*.

BC20. IPSAS 32, however, determines that the interest rate in calculating the finance charge should be determined based on the operator's cost of capital specific to the service concession asset. In developing this requirement, the IPSASB concluded that the grantor ordinarily would not have sufficient information to determine a market interest rate. IPSAS 32 further determines that, if it is not practicable to determine the operator's cost of capital, either (a) the rate implicit in the arrangement specific to the asset, (b) the grantor's incremental borrowing rate, or (c) another rate appropriate to the terms and conditions of the arrangement should be used. Only when sufficient information is not available, will the rate used to determine the finance charge be estimated by reference to a rate that would be expected on acquiring a similar asset.

BC21. The Board has concluded that it is more appropriate to use the existing principles in the Standards of GRAP rather than introduce new principles. It was therefore agreed that the principle in GRAP 104 should be applied in determining the interest rate that should be used in calculating the finance charge in the financial liability model. This principle is similar to IFRIC 12 and will result in similar treatment between the grantor and operator in the service concession arrangement.

Accounting for a financial guarantee contract

BC22. IPSAS 32 requires the grantor to apply the principles in the International Public Sector Accounting Standards dealing with financial instruments in accounting for guarantees made by the grantor when it meets the definition of a financial guarantee contract.

BC23. The basis for conclusions to GRAP 104 (see GRAP 104 paragraphs BC 11. to BC 16.) sets out the Board's view on why an entity should account for a guarantee, that meets the definition of a financial guarantee contract, using GRAP 19 and not in terms of GRAP 104. Based on this conclusion, this Standard requires the grantor to account for financial guarantee contracts in terms of GRAP 19 and not in terms of GRAP 104.

Comparison with the International Public Sector Accounting Standard on *Service Concession Arrangements: Grantor* (October 2011)

This Standard is drawn primarily from IPSAS 32. The main differences between this Standard and IPSAS 32 are as follows:

- IPSAS 32 uses the term "binding arrangement" in describing the relationship between the grantor and the operator. This Standard uses the term "contractual arrangement" as described in GRAP 104.
- This Standard uses the term "mandated function" in describing the public service that the operator is performing on behalf of the public sector entity. IPSAS 32 uses the term "public service" but does not define the term.
- This Standard requires that only the first control approach criterion should be met when the asset is used in a service concession arrangement for its entire economic life. IPSAS 32 refers to "useful life".
- The principles in IPSAS 32 apply to property, plant and equipment and intangible assets that are used to provide a service on behalf of the grantor. This Standard requires that the principles should, in addition, also be applied to heritage assets and investment property.
- IPSAS 32 requires that the interest rate that should be used in calculating the finance charge under the financial liability model should be based on the operator's cost of capital specific to the service concession asset. This Standard requires that the existing principles in the GRAP 104 should be used.
- IPSAS 32 requires the grantor to apply the principles in the IPSASs dealing with financial instruments in accounting for financial guarantee contracts. With the development of GRAP 104, the Board agreed that guarantees should be accounted for in terms of GRAP 19. This Standard therefore requires that guarantees should be accounted for in terms of GRAP 19.
- The disclosure requirements in this Standard have been clarified to require the grantor to disclose information for each material service concession arrangement and in aggregate for individually immaterial service concession arrangements.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 32.