ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

SERVICE CONCESSION ARRANGEMENTS WHERE A GRANTOR CONTROLS A SIGNIFICANT RESIDUAL INTEREST IN AN ASSET

(IGRAP 17)

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Accounting Standards Board

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IGRAP 17

Introduction

This pronouncement is set out in paragraphs .01 to .14. 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*.

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

References

- *Framework for the Preparation and Presentation of Financial Statements*[2]
- GRAP 9 *Revenue from Exchange Transactions*
- GRAP 13 *Leases*
- GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*
- GRAP 32 *Service Concession Arrangements: Grantor*
- IGRAP 3 *Determining Whether an Arrangement Contains a Lease*

Background

.01 The Standard of GRAP on *Service Concession Arrangements: Grantor* (GRAP 32) requires the grantor to recognise a service concession asset provided by the operator and an upgrade to an existing asset of the grantor 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.

.02 If one, or both of these criteria are not met, the grantor needs to 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 constitutes a lease. The principles in the Standard of GRAP on *Leases* (GRAP 13) shall then be applied to determine whether the arrangement constitutes a finance lease or operating lease.

.03 If the grantor concludes that the arrangement does not constitute a finance or an operating lease after considering the principles in IGRAP 3 and in GRAP 13, the grantor shall consider the principles in the *Framework for the Preparation and Presentation of Financial Statements*[2] in accounting for any revenue and expenses incurred in terms of the arrangement.

Scope

[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.*

.04 This Interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation shall not be applied by analogy to other types of transactions or arrangements.

Issue

.05 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. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

.06 Before the grantor can recognise a service concession asset in accordance with GRAP 32, both the criteria as noted in paragraph .01 need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of GRAP 32.

Consensus

Recognition of the performance obligation and the right to receive a significant interest in a service concession asset

.07 If the grantor controls a significant residual interest in a service concession asset at the end of the service concession arrangement through ownership, beneficial entitlement or otherwise, and the arrangement does not constitute a finance or an operating lease, the grantor needs to recognise its right to receive the residual interest (i.e. a receivable) in the service concession asset at the commencement of the arrangement.

.08 The right to receive a residual interest in the service concession asset to be received at the end of the arrangement is an exchange consideration. This is because the grantor will receive an asset in exchange for granting the operator access to the asset while providing a mandated function on its behalf in accordance with the substance of the arrangement.

.09 In terms of the Standard of GRAP on *Revenue from Exchange Transactions* (GRAP 9), the exchange consideration shall be recognised and measured at fair value. The value of the receivable (the right to the residual interest in the asset), receivable at the end of the service concession arrangement, shall reflect the value of the service concession asset as if it were already in the age and in the condition expected at the end of the service concession arrangement.

.10 When the grantor recognises the right to receive a residual interest in the service concession asset, the grantor shall also recognise its performance obligation for granting the operator access to the service concession asset in accordance with the substance of the arrangement. The value of the performance obligation shall be the same as the receivable interest recognised at the commencement of the service concession arrangement.

.11 The performance obligation shall be reduced and revenue shall be recognised based on the substance of the arrangement, for example as access to the service concession asset to be used in terms of the service concession arrangement, is provided to the operator.

.12 Some service concession arrangements may include provisions to adjust the arrangement for changes, such as a renewal option. If so, the effect of such changes shall be deemed to have taken place at the inception of the service concession arrangements.

Transitional provisions

.13 All changes resulting from the application of this Interpretation shall be accounted for in accordance with the requirements of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Effective date

.14 An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2019.

Basis for conclusions

Introduction

This basis for conclusions gives the Accounting Standard Board's (Board's) reasons for accepting or rejecting certain proposals related to the accounting for service concession arrangements where a grantor controls a significant residual interest in an asset. This basis for conclusions accompanies, but is not part of, this Interpretation.

Background

BC1. Paragraph .07 in GRAP 32 requires the grantor to recognise a service concession asset in a service concession arrangement when both the control approach criteria are met. If one, or both of these criteria are not met, the grantor needs to consider the principles in IGRAP 3 and GRAP 13 to determine whether the arrangement constitutes an operating or a finance lease as defined in GRAP 13.

Recognition of the performance obligation and the right to receive a significant interest in a service concession asset

BC2. If the grantor only controls a significant residual interest in the asset through ownership, beneficial entitlement or otherwise at the end of the service concession arrangement, the grantor cannot recognise the service concession asset in terms of GRAP 32. This is because the grantor does not control the service concession asset at the commencement of the service concession arrangement.

BC3. If it is concluded that the arrangement does not constitute a finance or an operating lease, the grantor shall recognise its right to receive a residual interest in the service concession asset (i.e. a receivable) at the end of the service concession arrangement to the extent that the definition on an asset is met.

BC4. The *Framework for the Preparation and Presentation of Financial Statements*[2] defines an asset as a resource controlled by the entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.

BC5. Because the grantor controls the right to receive a significant residual interest in the service concession asset, it could restrict the operator's practical ability to sell or pledge the service concession asset. The grantor shall therefore recognise its right to receive the residual interest in the service concession asset at the commencement of the arrangement.

BC6. Based on the nature of the right granted to the grantor, the right to receive the residual interest in the service concession asset at the end of the service concession arrangement reflects an exchange consideration. This is because the grantor has a receivable in an asset in exchange for granting the operator access to the asset while providing a mandated function on its behalf, in accordance with the substance of the arrangement. The grantor controls the right to receive a residual interest in the service concession asset without having delivered on its portion of the exchange, i.e. providing access to the operator in accordance with the substance of the arrangement.

BC7. As the grantor’s right to receive a residual interest in the service concession asset reflects an exchange consideration, the principles in GRAP 9 shall be applied to the recognition and measurement of the right.

BC8. When the grantor recognises its right to the residual interest in the service concession asset, it shall also recognise its performance obligation to grant the operator access to the service concession asset in accordance with the substance of the arrangement. The value of the performance obligation shall be same as the value at which the receivable interest is recognised at the commencement of the service concession arrangement.