



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: May 2006, London

Project: Service Concession Arrangements – Cover Paper
(Agenda Paper 5(i))

Introduction and papers for this meeting

1. At the March 2006 IFRIC meeting, staff agreed to prepare a draft of the revised text of IFRIC [X] *Service Concession Arrangements – Determining the Accounting Model* [formerly D12] in the light of the IFRIC's post exposure deliberations. Agenda Paper 5 (ii) contains that draft text for consideration by the IFRIC.
2. In Paragraphs 7-10 of this paper staff summarise the IFRIC's deliberations regarding sale and leaseback transactions within the scope of D12 and ask whether this matter should be the subject of a separate Interpretation. In paragraphs 11-17 of this paper staff set out the reasons why the scope of the draft Interpretations excludes pre-existing assets of the operator while including pre-existing assets of the grantor. IFRIC members are asked if they agree with the rationale.
3. In paragraphs 18-23 of this paper staff propose changing the name of the Interpretations (D12-14) to more clearly reflect the subject matter of the Interpretations and to move to one Interpretation (from three ie D12-14) in order

that all the guidance be found in one place.. IFRIC members are asked if they agree with the proposal.

4. In Agenda Paper 5 (iii) staff consider further the meaning of ‘significant’ in connection with the residual interest in the infrastructure at the end of the concession. In this paper staff propose adding to the application guidance contained in Interpretation [X]—Agenda Paper 5 (ii).

Objective of this meeting

5. The objective of the meeting is to reach agreement on the text contained in Agenda Paper 5 (ii). Except as indicated in paragraph 4, no further papers have been prepared for this meeting. It is intended that the rationale set out in the Basis for Conclusions in paper 5 (ii) provides sufficient explanation. A summary of the main changes from the proposals in D12 are set out in BC59 of that paper. Footnotes to that paragraph reference the main changes to D12. Other suggested amendments are explained in a footnote to the amendment.

6. IFRIC is asked whether (subject to drafting and editorial comments) it agrees with the requirements and rationale contained in Agenda Paper 5 (ii)?
--

7. Staff would appreciate it if any IFRIC member with technical reasons for disagreeing with the position proposed in paper 5 (ii) that are not reflected in the current text of that paper could provide staff with a brief written note of those reasons after the IFRIC meeting. This will assist if redrafting is considered necessary and in preparing papers for the Board.

Sale and leaseback transactions

8. During the course of developing the proposals in D12, the IFRIC reached the conclusion that a transaction that took the form of a sale and leaseback should not be accounted for as such if it also incorporated a repurchase agreement.
9. The reason was that the seller/lessee would retain effective control of the asset by virtue of the repurchase agreement. Hence the criteria for recognising a sale (which are set out in paragraph 14 of IAS 18 *Revenue*) would not be met. The IFRIC had noted at the time that this conclusion would apply more widely than

to service concession arrangements and that it should, if retained, be the subject of a separate Interpretation. Some respondents to the proposals queried the conclusion in BC31 and referred to the wider ramifications. The IFRIC noted their comments during its post exposure review of proposals and decided to revisit the question at a future meeting. The Basis for Conclusions contained in Agenda Paper 5 (ii) addresses this point:

Existing infrastructure of the grantor to which the operator is given access

BC28 The IFRIC believes that IAS 18 *Revenue* should be applied to determine whether a sale should be recognised when the grantor gives the operator access to existing infrastructure for the purpose of the concession. If the conditions for recognising a sale from the grantor to the operator are not met, the operator should not recognise the infrastructure as its property, plant and equipment.

BC29 Paragraph 14 of IAS 18 states that revenue from the sale of goods is recognised only when five conditions are satisfied:

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

BC31 The IFRIC believes that, for arrangements within the scope of the Interpretation, the second of these conditions is not satisfied. Hence, no sale can be recognised by the grantor. The IFRIC further believes that, without the IAS 18 conditions for a sale having been met, there cannot be a sale and leaseback. Therefore, existing infrastructure that has been transferred by the grantor to the operator for the duration of the concession is not recognised as the property, plant and equipment of the operator.

10. IFRIC is whether it believes that this matter should be the subject of a separate Interpretation?

Existing assets of the operator

11. D12 did not specify the accounting for infrastructure that the operator held and recognised as its property, plant and equipment before entering the concession arrangement. Rather, paragraph 6 of D12 noted that the derecognition requirements of IAS 18 applied in respect of that infrastructure.

12. A number of commentators expressed concern about this exclusion, indicating that it limits the usefulness of the draft interpretations. At the September 2005 IFRIC meeting the IFRIC decided that it should more clearly explain the reasons for the scope exclusion – that is, that existing IFRSs are clear, and agreed to incorporate signposts into the final Interpretation to the standards that the IFRIC believed would apply most often.
13. At the March 2006 meeting, IFRIC members requested that staff consider further the perceived inconsistency that the scope of the draft Interpretations excludes pre-existing assets of the operator while including pre-existing assets of the grantor.
14. Staff believe that the exclusion of previously owned assets of the operator is perceived to be inconsistent with the inclusion of previously owned assets of the grantor because these two assets appear to be similar in nature. One example cited in the comment letters was of a hospital which was built for use as a private hospital by the operator, and which is now used in a service concession arrangement, as contrasted with a hospital that is a pre-existing asset of the grantor. The two hospitals appear to be very similar in nature – they are pre-existing assets (infrastructure) that have been incorporated into a service concession arrangement to enable the private sector operator to provide a public service for profit.
15. The key difference between the two hospitals for accounting purposes is that to bring its existing hospital under the control of the grantor—as required by the scope of this Interpretation, the operator must cease to recognise it as its own property, plant and equipment. If the derecognition criteria of IFRSs are met then the guidance in D12 – D14 might apply to such assets. Conversely, the pre-existing hospital of the grantor is controlled by the grantor and is therefore not recognised as property, plant and equipment of the operator. An asset that remains the property, plant and equipment of the operator does not raise the issues addressed in this Interpretation.

Proposed Amendments

16. Staff recommend strengthening the scope section of the Basis for Conclusions to better explain the reasons why the IFRIC did not specify the accounting for

pre-existing assets of the operator. The diagram in Appendix C of Agenda Paper 5 (ii) provides a summary of such references.

Existing assets of the operator

BC16 The Interpretation does not specify the treatment of existing assets of the operator because the IFRIC agreed that it would be difficult to add to the requirements of existing standards (IAS 16, IAS 17 and IFRIC 4) and (b) unusual for such assets to be significant in the context of a service concession arrangement as a whole.

BC17 Some respondents asked the IFRIC to provide guidance on the accounting for existing assets of the operator stating the scope exclusion would create uncertainty about the treatment of these assets.

BC18 In its redeliberations the IFRIC noted that the objective of the Interpretation is to address whether the operator should recognise the infrastructure as its property, plant and equipment. The accounting issue to be addressed for existing assets of the operator is one of derecognition, which is already addressed in IFRSs (IASs 16, 17 and 18 and IFRIC 4). Nonetheless, in the light of the comments received from respondents, the IFRIC decided to clarify that certain service concession arrangements may convey to the grantor a right to use existing assets of the operator, in which case the operator would apply the derecognition requirements of IFRSs to determine whether it should derecognise its existing assets. The diagram in Appendix C provides references to IFRS that might apply to existing assets of the operator that are used exclusively for the purposes of the service concession arrangement. The IFRIC noted that this Interpretation may apply to arrangements where the derecognition requirements of IFRSs are met.

17. Does the IFRIC agree with this rationale?

The name of the Interpretation(s)

18. Staff propose changing the name of the Interpretations (D12-14) from ‘Service Concession Arrangements’ to ‘Private Sector Participation in the Provision of Public Services’. This would clarify the subject matter of the Interpretation. At the same time take advantage of the opportunity and move from three Interpretations to one Interpretation in order that all the guidance be found in one place.
19. D12-14 would be issued as one Interpretation— Interpretation [X] *Private Sector Participation in the Provision of Public Service Determining the Accounting Model*.
20. Staff believe the reference to private participation in the provision of public services more clearly reflects the subject matter of the Interpretation. During discussion with constituents staff found that the term ‘service concession arrangements’ was not widely used or in some cases understood, in particular

among those involved in the industry but not familiar with the IFRIC's deliberations on this topic. Staff regards the new name as more meaningful. Furthermore, the staff notes that the word 'concession' does not have a direct translation into many languages used in the Asia Pacific region.

21. If the IFRIC decide to change the name as proposed above, a consequential amendment would be necessary to the name of SIC-29 *Disclosure Service Concession Arrangements*. This would be renamed to SIC-29 *Disclosures—Private Sector Participation in the Provision of Public Services*.

22. Does the IFRIC agree with changing the name of the Interpretations?

23. Does the IFRIC agree with moving to one Interpretation?
