

Issues Paper – Draft IPSAS on Service Concession Arrangements

Locus of regulation

The draft IPSAS (paragraphs AG7 and AG8) specifies that the grantor should consider whether it controls or regulates the service concession assets by reference to regulation either by the grantor itself or by third party regulators. Paragraph AG8 concludes that the grantor's control may derive from the specific regulation itself and not from the regulator being related to the regulator.

This clarifies that the grantor and operator would review the effect of regulations on the question of which entity controls service concession assets under an arrangement from the same perspective. However, the language in the pivotal paragraph 9(a) – the grantor “controls or regulates” the services, recipients and pricing – does not reflect that the grantor itself does not need to carry out the regulatory process.

Recognition of revenue under grant of rights model

References to performance obligations have now been replaced by revenue recognition requirements. These generally mean revenue recognition over the term of a service concession arrangement, in accordance with the “economic substance” of the arrangement, although the pattern of recognition may vary. Unearned revenue is to be recognised as a liability.

The draft IPSAS would seem to allow up-front revenue recognition by a grantor, if that was appropriate under the terms of an arrangement. For example, paragraph AG48 refers to revenue being recognised “usually” as the access to the service concession asset is provided to the operator over the term of the arrangement.

Staff consider that the IPSASB has gone as far as it can within the constraints of a developing a Standard that would be accepted in practice.

Do Board members agree that these issues should be addressed in comments to the IPSASB?

Are there other issues that Board members wish to address?
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Possible re-exposure of the draft IPSAS

The IPSASB will consider whether to re-expose any final IPSAS approved at its September meeting. The issues that may cause it to decide to re-expose instead of issue an final Standard are:

- (a) the requirement for the grantor to recognise assets being constructed by the operator to meet the service concession arrangement (paragraphs AG20 ff.);
- (b) the treatment of the credit on recognition of a service concession asset under the “grant of a right to the operator” model (paragraphs AG48ff.); and
- (c) the transitional provisions now requiring retrospective application of the Standard, where the exposure draft had proposed prospective application by entities not already recognising service concession assets.

Process for finalising AASB comments

Staff suggest that the comments could be finalised through the Board's service concessions committee or the Chairman.

Do Board members have views on these two matters?
