

Urgent Issues Group

Interpretation 129

July 2004

Disclosure – Service Concession Arrangements



Australian Government

**Australian Accounting
Standards Board**

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PREFACE

Reasons for Issuing UIG Interpretation 129

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The same approach applies to UIG pronouncements. This Interpretation is part of the set of Australian equivalents to each International Accounting Standard (IAS), International Financial Reporting Standard (IFRS) and Interpretation of the IASB (collectively defined by the IASB as IFRSs). This set includes UIG Interpretations that correspond to the IASB Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Main Features of this Interpretation

This Interpretation is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Interpretation is not permitted.

Application of this Interpretation will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Interpretation had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

The Interpretation requires specific disclosures, in the notes accompanying financial statements, about service concession arrangements entered into by

the entity, whether as a concession provider or a concession operator. Service concessions cover services that give the public access to major economic and social facilities. The required disclosures include significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows. Disclosures are required individually for each service concession arrangement or in aggregate for each class of service concession arrangements.

Comparison with Superseded Requirements

There were no specific disclosure requirements for service concession arrangements in previous Accounting Standards or UIG Abstracts in Australia.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

UIG Interpretation 129 is equivalent to Standing Interpretations Committee Interpretation SIC-29 *Disclosure – Service Concession Arrangements*, issued by the IASB. Paragraphs that have been added to this Interpretation (and do not appear in the text of the equivalent SIC Interpretation) are identified with the prefix “Aus”, followed by the number of the relevant SIC paragraph and decimal numbering.

Entities that comply with Interpretation 129 will simultaneously be in compliance with SIC-29.

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants. They do not contain specific disclosure requirements concerning service concession arrangements.

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SERVICE CONCESSION ARRANGEMENTS

ISSUE

1. An entity (the Concession Operator) may enter into an arrangement with another entity (the Concession Provider) to provide services that give the public access to major economic and social facilities. The Concession Provider may be a public or private sector entity, including a governmental body. Examples of service concession arrangements involve water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks. Examples of arrangements that are not service concession arrangements include an entity outsourcing the operation of its internal services (e.g., employee cafeteria, building maintenance, and accounting or information technology functions).
2. A service concession arrangement generally involves the Concession Provider conveying for the period of the concession to the Concession Operator:
 - (a) the right to provide services that give the public access to major economic and social facilities, and
 - (b) in some cases, the right to use specified tangible assets, intangible assets, and/or financial assets,in exchange for the Concession Operator:
 - (c) committing to provide the services according to certain terms and conditions during the concession period, and
 - (d) when applicable, committing to return at the end of the concession period the rights received at the beginning of the concession period and/or acquired during the concession period.
3. The common characteristic of all service concession arrangements is that the Concession Operator both receives a right and incurs an obligation to provide public services.

4. The issue is what information should be disclosed in the notes in the financial report of a Concession Operator and a Concession Provider.
5. Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing Australian Accounting Standards (e.g., Accounting Standard AASB 116 *Property, Plant and Equipment* applies to acquisitions of items of property, plant and equipment, AASB 117 *Leases* applies to leases of assets, and AASB 138 *Intangible Assets* applies to acquisitions of intangible assets). However, a service concession arrangement may involve executory contracts that are not addressed in Australian Accounting Standards, unless the contracts are onerous, in which case AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* applies. Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

CONSENSUS

6. **All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A Concession Operator and a Concession Provider shall disclose the following in each period:**
 - (a) a description of the arrangement;
 - (b) significant terms of the 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) obligations to provide or rights to expect provision of services;
 - (iii) obligations to acquire or build items of property, plant and equipment;
 - (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;
 - (v) renewal and termination options; and

- (vi) other rights and obligations (e.g., major overhauls);
and
 - (d) changes in the arrangement occurring during the period.
7. The disclosures required in accordance with paragraph 6 of this Interpretation shall be provided individually for each service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications and water treatment services).

Application

- Aus7.1 This Interpretation applies to:**
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
 - (b) general purpose financial reports of each other reporting entity; and
 - (c) financial reports that are, or are held out to be, general purpose financial reports.
- Aus7.2 This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.**
- Aus7.3 This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.**
- Aus7.4 The requirements specified in this Interpretation apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

DISCUSSION

8. Paragraph 15 of the *Framework for the Preparation and Presentation of Financial Statements* states that the economic decisions taken by users of financial reports require an evaluation of the ability of the entity to generate cash and cash equivalents and of the timing and certainty of their generation. Paragraph 21 of the *Framework* states that financial reports also contain notes and supplementary schedules

and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may also include disclosures about the risks and uncertainties affecting the entity and any resources and obligations not recognised in the balance sheet.

9. A service concession arrangement often has provisions or significant features that warrant disclosure of information necessary to assist in assessing the amount, timing and certainty of future cash flows, and the nature and extent of the various rights and obligations involved. The rights and obligations associated with the services to be provided usually involve a high level of public involvement (e.g., to provide electricity to a city). Other obligations could include significant acts such as building an infrastructure asset (e.g., power plant) and delivering that asset to the Concession Provider at the end of the concession period.
10. AASB 101 *Presentation of Financial Statements*, paragraph 103(c), requires an entity's notes to provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them. The definition of notes in AASB 101.11 indicates that notes provide narrative descriptions or disaggregations of items disclosed in the balance sheet, income statement, statement of changes in equity and cash flow statement, as well as information about items that do not qualify for recognition in those statements.

Date of SIC's Consensus: [Deleted by the UIG]

Effective Date of SIC-29: [Deleted by the UIG]

REFERENCES

Australia

The Urgent Issues Group discussed Issues Paper UIG/SIC 04/1 “Adoption of Various SIC Interpretations in Australia” in relation to this Interpretation at its meeting on 4 May 2004.

Accounting Standard AASB 101 *Presentation of Financial Statements*

Accounting Standard AASB 116 *Property, Plant and Equipment*

Accounting Standard AASB 117 *Leases*

Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

Accounting Standard AASB 138 *Intangible Assets*

Framework for the Preparation and Presentation of Financial Statements

International Accounting Standards Board

International Accounting Standard IAS 1 *Presentation of Financial Statements*

Standing Interpretations Committee Interpretation SIC-29 *Disclosure – Service Concession Arrangements*