

## **Disclosure - Service Concession Arrangements**

*Paragraph 14 of SB-FRS 1 Presentation of Financial Statements requires that financial statements should not be described as complying with Statutory Board Financial Reporting Standards unless they comply with all the requirements of each applicable Standard and each applicable Interpretation of the Statutory Board Financial Reporting Standard. INT SB-FRSs are not intended to apply to immaterial items.*

**Reference:** SB-FRS 1 *Presentation of Financial Statements*

### **ISSUE**

1. An enterprise (the Concession Operator) may enter into an arrangement with another enterprise (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 enterprise, 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 enterprise 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:
    - (i) committing to provide the services according to certain terms and conditions during the concession period, and
    - (ii) 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 of a Concession Operator and a Concession Provider.
5. Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing Statutory Board Financial Reporting Standards (e.g., SB-FRS 16 applies to acquisitions of items of property, plant and equipment, SB-FRS 17 applies to leases of assets, and SB-FRS 38 applies to acquisitions of intangible assets).

However, a service concession arrangement may involve executory contracts that are not addressed in Statutory Board Financial Reporting Standards, unless the contracts are onerous, in which case SB-FRS 37 applies. Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

## **CONSENSUS**

6. All aspects of a service concession arrangement should be considered in determining the appropriate disclosures in the notes. A Concession Operator and a Concession Provider should 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, repricing 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 should 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).

## **BASIS FOR CONCLUSIONS**

8. Paragraph 11 of the SB-FRS Framework states that the economic decisions taken by users of financial statements require an evaluation of the ability of the enterprise to generate cash and cash equivalents and of the timing and certainty of their generation. Paragraph 17 of the SB-FRS Framework states that financial statements 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 enterprise 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. SB-FRS 1.9+103(c) requires ~~the an entity's notes to the financial statements of an enterprise to provide additional information which that~~ is not presented on the face of the ~~financial statements~~ balance sheet, income statement, statement of changes in equity or cash flow statement, but that is necessary for a fair presentation relevant to an understanding of any of them. ~~SB-FRS 1.93~~ The definition of notes in SB-FRS 1.11 indicates that ~~the notes to the financial statements include~~ provide narrative descriptions or ~~more detailed analyses~~ disaggregations of amounts ~~shown on the face of items disclosed~~ in the balance sheet, income statement, statement of changes in equity and cash flow statement and statement of changes in equity, as well as additional information ~~such as contingent liabilities and commitments~~ about items that do not qualify for recognition in those statements.

**Effective Date:** This Interpretation becomes effective on 1 January 2006.