

**ACCOUNTING AND FINANCIAL REPORTING
FOR SERVICE CONCESSION ARRANGEMENTS
(CONSULTATION PAPER)
- IFAC-IPSASB**

Introduction

This Consultation Paper proposes requirements for the accounting and financial reporting of service concession arrangements from the perspective of the public sector entity, the grantor.

1. Financial Reporting of Infrastructure and Public Facilities

The recognition criteria for reporting the property underlying an SCA as an asset in the grantor's financial statements are in symmetry, generally, with the corresponding recognition criteria in IFRIC 12, from the perspective of the operator.

We agree that the extra requirement in the Consultation Paper that the grantor must control the residual interest in the property at the end of the arrangement for whole-of-life arrangements serves to preserve the grantor's continuous use of the property during the arrangement.

However, the above asymmetry compared to IFRIC 12 will result in exclusion of underlying property, in certain cases, from both the Balance Sheets of the grantor and the operator.

2. Grantor Financial Reporting When the Proposed Control Criteria Are Met

The financial reporting requirements by the grantor when the proposed control criteria are met are generally based on the requirements of other IPSASs, as IPSAS 13 "Leases", IPSAS 17 "Property, Plant and Equipment" and IPSAS 21 "Impairment of Non-Cash generating Assets", and thus, we agree with them.

3. Contractually Determined Inflows of Resources

Revenue recognition of contractually determined inflows of resources to be received by the grantor from an operator as part of an SCA is in line with the IPSAS 9 "Revenue from Exchange Transactions".

However, we believe that the term "fully operational", used to determine when the concession term commences, is somehow ambiguous. For instance, in the case of the construction of a new toll road under an SCA, will the grantor commence to recognise contractually determined inflows of resources as revenue once the one way direction of the road is fully operational (assuming that the grantor provides the operator access to the

road by then) or will the revenue recognition commence once the whole project is fully operational? We suggest that the Consultation Paper should also include real-life examples and/ or further interpretation of the term, so that this ambiguity to be restricted.

Conclusion

In our opinion, the Consultation Paper will not only assist accountants working in public sector entities on the financial reporting of SCAs, but will assist decision makers on project financing and financial management of such arrangements, especially in nations without national legislation, technical guidance and financial reporting standards for SCAs.

**The Institute of Certified Public Accountants of Cyprus -
Public Sector Committee**

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