

HK(SIC)-Int 29  
~~Issued December 2004~~ Revised August 2010

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Effective for annual periods  
beginning on or after 1 January 2005

*Hong Kong (SIC) Interpretation 29*

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# **Service Concession Arrangements: Disclosures**



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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## Hong Kong (SIC) Interpretation 29

### ***Service Concession Arrangements: Disclosures***

HK(SIC) Interpretation 29 *Service Concession Arrangements: Disclosures* (HK(SIC)-Int 29) is set out in paragraphs 6 and 7. HK(SIC)-Int 29 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

#### **References**

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- HKAS 1 *Presentation of Financial Statements (as revised in 2007)*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 17 *Leases*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HKAS 38 *Intangible Assets*
- HK(IFRIC)-Int 12 *Service Concession Arrangements*

#### **Issue**

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- 1 An entity (the operator) may enter into an arrangement with another entity (the grantor) to provide services that give the public access to major economic and social facilities. The grantor 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 (eg employee cafeteria, building maintenance, and accounting or information technology functions).
- 2 A service concession arrangement generally involves the grantor conveying for the period of the concession to the 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, or financial assets,
 in exchange for the 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 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 statements of an operator and a grantor.
- 5 Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing Hong Kong Financial Reporting Standards (eg HKAS 16, applies to acquisitions of items of property, plant and equipment, HKAS 17 applies to leases of assets, and HKAS 38 applies to acquisitions of intangible assets). However, a service concession arrangement may involve executory contracts that are not addressed in Hong Kong Financial Reporting Standards, unless the contracts are onerous, in which case HKAS 37 applies.

Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

## Conclusions

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- 6 All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. An operator and a grantor 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 (eg 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 (eg 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 (eg major overhauls);
  - (d) changes in the arrangement occurring during the period; and
  - (e) how the service arrangement has been classified.
- 6A An operator shall disclose the amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.
- 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 (eg toll collections, telecommunications and water treatment services).

## Basis for Conclusions

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HK(SIC)-Int 29 is based on SIC Interpretation 29 *Service Concession Arrangements: Disclosures*. In approving HK(SIC)-Int 29, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 29. Accordingly, there are no significant differences between HK(SIC)-Int 29 and SIC Interpretation 29. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 29 referred to below generally correspond with those in HK(SIC)-Int 29.

- 8 Paragraph 15 of the *Framework* states that the economic decisions taken by users of financial statements 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 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~~ statement of financial position and statement of comprehensive 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~~ statement of financial position.
- 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 (eg to provide electricity to a city). Other obligations could include significant acts such as building an infrastructure asset (eg power plant) and delivering that asset to the grantor at the end of the concession period.
- 10 IAS 1.112(c) ~~103(e)~~ requires an entity's notes to provide additional information that is not presented elsewhere in the ~~financial statements 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 IAS 1.744 indicates that notes provide narrative descriptions or disaggregations of items disclosed in the ~~balance sheet~~ statement of financial position, statement of comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows ~~statement~~, as well as information about items that do not qualify for recognition in those statements.

## Date of issue

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December 2004

## Effective date

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This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

An entity shall apply the amendment in paragraphs 6(e) and 6A for annual periods beginning on or after 1 January 2008. If an entity applies HK(IFRIC)-Int 12 for an earlier period, the amendment shall be applied for that earlier period.

This Interpretation supersedes Interpretation 16 *Disclosure - Service Concession Arrangements* (issued in July 2002).