

## HONG KONG SOCIETY OF ACCOUNTANTS

### Financial Accounting Standards Committee

#### Urgent Issues & Interpretations Sub-Committee

### Interpretation

### 16

### Disclosure - Service Concession Arrangements

*Interpretations are authoritative guidance on the application of Statements of Standard Accounting Practice with which enterprises should comply if their financial statements purport to give a true and fair view. Unless indicated otherwise, Interpretations have the same status as the background material and implementation guidance contained in Statements of Standard Accounting Practice. Interpretations are not intended to apply to immaterial items.*

References: SSAP 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:
  - (a) committing to provide the services according to certain terms and conditions during the concession period, and
  - (b) 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 to the financial statements of a Concession Operator and a Concession Provider.

5. Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing Statements of Standard Accounting Practice (e.g., SSAP 17, Property, Plant and Equipment, applies to acquisitions of items of property, plant and equipment, SSAP 14, Leases, applies to leases of assets, and SSAP 29, Intangible Assets, applies to acquisitions of intangible assets). However, a service concession arrangement may involve executory contracts that are not addressed in Statements of Standard Accounting Practice, unless the contracts are onerous, in which case SSAP 28, Provisions, Contingent Liabilities and Contingent Assets, applies. Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

## **CONCLUSIONS**

6. All aspects of a service concession arrangement should be considered in determining the appropriate disclosures in the notes to the financial statements. 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, 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 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. 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.

9. SSAP 1 paragraph 101(c) requires the notes to the financial statements of an enterprise to provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation. SSAP 1 paragraph 103 indicates that the notes to the financial statements include narrative descriptions or more detailed analyses of amounts shown on the face of the balance sheet, income statement, cash flow statement and statement of changes in equity, as well as additional information such as contingent liabilities and commitments.

Date of Issue: 25 June 2002

Effective Date: This Interpretation becomes effective on 30 June 2002.