STAFF PAPER

May 2012

IFRS Interpretations Committee Meeting

Previous meetings: Nov 2011; Jan, Mar 2012

Project	**IFRIC 12**		
Paper topic	Payments made by an operator to a grantor		
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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to address an issue related to payments made by an operator in a service concession arrangement within the scope of IFRIC 12 *Service Concession Arrangements*.

2. Specifically, the submitter requested that the Committee clarify in what circumstances (if any) costs to be incurred by the operator under the service concession arrangement should:

   (a) be recognised at the start of the concession as an asset with an obligation to make the related payments; or

   (b) be treated as executory in nature, to be recognised over the term of the concession arrangement.

3. There are a number of examples of contractual payments that operators are obliged to make in order to fulfil their obligations under service concession arrangements (‘concession payment’). These include, but are not limited to:

   (a) Payments to the grantor or third parties for the use of tangible assets (‘right-of-access payments’); and

   (b) Fees payable to the grantor by the operator for the right to operate the concession (‘concession fees’). The concession fees can be fixed or variable depending on the specific terms of the service concession arrangement.

Tentative decisions taken in the previous meetings

March 2012 Committee meeting

4. The Committee has discussed this issue over several meetings. We have included a decision tree that summarises the tentative decisions reached to date in Appendix B to this paper. The tentative decisions are also explained in the following paragraph.

5. At the March 2012 meeting, the Committee tentatively decided that:

(a) if the concession payment gives the operator a right to a good or service that is distinct from the service concession arrangement, the operator should account for that distinct good or service in accordance with the applicable IFRS;

(b) when the concession payment is linked to the right of use of a tangible asset, judgement should be used to determine whether the operator obtains control of the right of use of the asset. If the operator controls the right of use, then that element of the concession arrangement would be considered to be an embedded lease within the scope of IAS 17 *Leases*;

(c) when the concession payment is linked to the right of use of a tangible asset, but the arrangement does not represent an embedded lease, then the right-of-access payment should be analysed in the same way as a concession fee as follows in (d) below;

(d) if the concession payment does not give the operator a right to a distinct good or service or a right of use that meets the definition of a lease, the type of service concession arrangement should be considered to help an operator determine the accounting for the concession payment:

a) if the service concession results in the operator having a contractual right to receive cash from only the grantor (ie the financial asset model in IFRIC 12 applies), then the concession payment is an adjustment to the overall revenue consideration;

b) if the service concession arrangement results in the operator having only a right to charge users of the public service (ie the intangible asset model in IFRIC 12 applies), then the concession payment represents consideration for the concession right (ie part of the cost of the intangible asset recognised); and

c) if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor (ie the in-substance guarantee from the grantor for the operator's services), then the amount of the contractual right to receive cash from the grantor needs to be compared with the fair value of the operator's services to help the operator in making the judgement of whether the concession payment represents an adjustment to the overall revenue consideration or consideration for the concession right intangible asset.

Structure of this agenda item

6. At the March 2012 Committee meeting, the Committee asked the staff:

(a) to analyse the issue of variable concession fees, and to recommend the appropriate accounting for such fees taking into consideration the principles currently contained in the exposure draft for Leases as the basis for this analysis.

(b) to prepare a draft amendment to IFRIC 12 to incorporate the above principles discussed by the Committee, which would also include the staff's recommendations relating to variable payments.

7. Consequently, this agenda item has been divided two sections:

(a) Section A – analysis of variable concession fees; and

(b) Section B – proposed amendment to IFRIC 12.

Section A – analysis of variable concession fees

8. For the purposes of the analysis that follows in this section, we have assumed that the variable concession fee does not represent a distinct good or service, or an embedded lease within the scope of IAS 17. Consequently, as discussed at the March 2012 Committee meeting, the variable concession fee would need to be considered in the context of the type of concession arrangement, ie:

   (a) The operator only has a right to charge the grantor for the operation services (financial asset model);

   (b) The operator only has a right to charge users of the public service (intangible asset model); or

   (c) The operator has a right to charge users of the public service and has a guarantee from the grantor for a minimum specified amount (hybrid model).

Variable concession fees - financial asset model

9. As discussed in the March 2012 Committee meeting, when the operator has only a right to charge the grantor, the concession fee should be treated as an adjustment to the overall consideration, ie it will reduce the revenue that is recognised from the operator's services when that revenue is recognised.

10. The rationale for this approach is based on the assumption that, in the financial asset model, the grantor is no different from a customer in a revenue arrangement. In other words, an operator would treat a variable concession fee payable to the grantor in the same way as an entity would treat a variable payment to a customer.

11. IAS 18 *Revenue* does not provide explicit guidance relating to payments made to customers apart from volume rebates and trade discounts discussed in paragraph 10 of IAS 18:

> The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

12. Although IAS 18 does not explicitly address all types of payments to customers, we think that the principle in IAS 18 that is applied to volume rebates and trade discounts should be applied to other payments from an entity to a customer. In addition, the revised 2011 exposure draft for *Revenue from Contracts with Customers* is consistent with the above thinking and states:

> 65. Consideration payable to a customer includes amounts that an entity pays, or expects to pay, to a customer (or to other parties that purchase the entity's goods or services from the customer) in the form of cash, credit or other items that the customer can apply against amounts owed to the entity. An entity shall account for consideration payable to a customer as a reduction of the transaction price and, hence, of revenue unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 28 and 29) that the customer transfers to the entity.
>
> 67. Accordingly, if consideration payable to a customer is a reduction of the transaction price, an entity shall recognise the reduction of revenue when (or as) the later of either of the following occurs:
>
> (a) the entity recognises revenue for the transfer of the related goods or services to the customer; and
>
> (b) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

13. Consequently, where there is a concession payment that is variable, the operator would recognise this as a reduction in revenue when the related revenue is recognised:

Example 1: variable fee with a rebate

- For example, Entity O ('the operator') is the operator and Entity G ('the grantor') is the grantor in an 11 year service concession arrangement within the scope of IFRIC 12.
- The operator begins constructing a toll road on behalf of the grantor at the beginning of year 1, and following this the operator will operate the public toll road on behalf of the grantor for the remaining years of the concession period. The terms of the agreement state that the grantor will pay the operator a contractually agreed amount per year as consideration for the services (financial asset model).
- The grantor agrees to pay to the operator an amount of CU10,000 each year from the start of year 2 over the 11 year concession arrangement, ie CU100,000. However, at the end of the concession arrangement, if it is determined that the number of users of the public service over the concession term was below 50,000,000, then the operator will be required to make a payment to the grantor of CU10,000 (because it is assumed that if the users are above 50,000,000, this is an indication that the service was provided at an acceptable service level). The payment to the grantor does not represent the payment for a distinct good or service.
- At the end of year 1, the operator completes construction of the toll road and begins to operate the toll road at the start of year 2. At the end of year 1, the operator expects the number of users to be above 50,000,000 at the end of the concession arrangement. However, at the end of year 2, the operator estimates that the number of users will be below 50,000,000 at the end of the concession arrangement.
- For the purposes of this example, the time value of money has been ignored. Assume that the fair value of the construction services is CU40,000 and the fair value of the operation services is CU60,000. The operation services are assumed to be provided evenly over years 2-11.

<u>Proposed application of the revenue recognition principles</u>

- The contingent payment from the operator to the grantor can be viewed as a variable payment that is either zero or CU10,000[1]. At the end of year 1, the overall consideration for the arrangement can be determined to be CU100,000, which is calculated as the consideration of CU100,000 less the most likely concession payment of CU0.
- The operator allocates the overall consideration to the separate elements of the arrangement based on their relative fair values. In other words, of the overall consideration of CU100,000 is allocated as CU40,000 for the construction services and CU60,000 for the operation services.
- At the end of year 1, the construction services have been fully delivered, whereas none of the operation services have been delivered. Consequently, the journal entries at the end of year 1 are:

  Dr Cash CU10,000

  Dr Receivable CU30,000

  Cr Revenue CU40,000

  Recognition of the revenue for year 1 based on the overall consideration and the relative fair value of the goods and services provided.
- At the end of year 2, the operator updates its estimates of the overall consideration, taking into account the revised variable concession payment. The overall consideration is now CU90,000 (based on a most likely outcome approach), which is calculated as the consideration of CU100,000 less the most likely concession payment of CU10,000.
- The operator allocates the overall consideration to the separate elements of the arrangement based on their relative fair values. In other words, the overall consideration of CU90,000 is allocated as CU36,000 (CU40,000 × CU90,000 ÷ CU100,000) for the construction services and CU54,000 (CU60,000 × CU90,000 ÷ CU100,000) for the operation services.
- At the end of year 2, the construction services have been fully delivered and 1 year of the 10 years of the operation services have been delivered. The *cumulative* revenue that should be recorded at the end of year 2 is therefore:

  CU36,000 for the construction services; plus

[1] IAS 18 is not specific as to whether a weighted average or most likely outcome should be applied for variable payments from customers. Paragraph 55 of the 2011 Exposure Draft *Revenue from Contracts with Customers* states that an entity should use an approach that is most indicative of the expected consideration.

> CU54,000 × 1/10 for the operation services
>
> = CU40,500.
>
> - Consequently, the journal entries at the end of year 2 are:
>
> Dr Cash CU10,000
>
> Cr Revenue CU500
>
> Cr Receivable CU9,500
>
> *Recognition of the revenue for year 2 based on the overall consideration and the relative fair value of the goods and services provided.*

14. Although the above example illustrates a fact pattern with a variable concession fee under the financial asset model, we think that in most cases the payment from the operator to the grantor under the financial asset model would be for fixed amounts. We think this because, based on limited outreach, we understand that payments from the operator to the grantor under the financial asset model are normally linked to a financing arrangement between the two parties.

Variable concession fees - Intangible asset model

15. As discussed in the March 2012 Committee meeting, when the operator has only a right to charge users of the public service, the concession fee should be treated as an incremental payment for the acquisition of the intangible asset.

16. The rationale for this approach is based on the assumption that, in the intangible asset model, the arrangement represents a barter transaction of non-cash consideration where a service (the operator's construction and/or operation services) is exchanged for an intangible asset (the grantor's concession right). However, as part of the barter transaction, the operator might also be required to pay the grantor a concession payment in order to make up the difference in the relative fair values of the items that are exchanged. For example, if the construction or upgrade services have a fair value of CU1,500 but the fair value of the right to charge the public is worth CU1,700, then the grantor would require something more than the construction services in exchange for the right to charge the public, ie a concession payment of CU200.

17. Where the payment that the operator is required to make to the grantor is variable, we think this is analogous to a transaction where a variable payment is made by a purchaser to acquire an intangible asset from a seller. Consequently, we think that this is a broader issue that deals with the principle that should apply when a variable payment is part of the consideration to acquire an intangible asset.

18. Consequently, we have prepared a paper that deals more broadly with variable payments for the acquisition of tangible and intangible assets, as discussed in Agenda paper 3A *Contingent payments for the separate purchase of PPE and intangible assets*. Based on the rationale in that paper, we have prepared the following example which illustrates how that principle would apply in a service concession arrangement:

Example 2: Variable fee based on volume of use

- For example, Entity O ('the operator') is the operator and Entity G ('the grantor') is the grantor in an 11 year service concession arrangement within the scope of IFRIC 12.
- The operator begins constructing a toll road on behalf of the grantor at the beginning of year 1, and following this the operator will have the right to operate the public toll road on behalf of the grantor for the remaining 10 years of the concession period. The terms of the agreement state that the operator has the right to charge users of the public service a fixed amount of CU10 per car over the concession term (intangible asset model).
- The operator agrees to pay to the grantor an amount of CU1 per car over the period of the concession arrangement. The payment to the grantor does not represent the payment for a distinct good or service.
- At the end of year 1, the operator completes construction of the toll road and begins to operate the toll road at the start of year 2. At the end of year 1, the operator expects the number of users to be 11,000 over the life of the concession term, although the operator cannot be reasonably certain of this. At the end of year 2, 1,200 users have made use of the toll road and the operator revises its estimate of total users over the life of the concession term to 12,000 users. Again the operator cannot be reasonably certain of the estimate of the number of users over the life of the concession.
- For the purposes of this example, the time value of money has been ignored. Assume that the fair value of the construction services is CU40,000 and the

fair value of the operation services is CU60,000. The operation services are assumed to be provided evenly over years 2-11.

- Economically, the service concession is initially thought to be worth CU110,000 (CU10 per car × 11,000 cars), whereas the concession services are thought to be worth CU100,000 (construction of CU40,000 + operation of CU60,000). Consequently, the CU1 payment per car is intended to compensate the grantor for the fact that the service concession is relatively more valuable than the operator's services.

Proposed application of the variable payments to acquire an intangible asset as explained in Agenda paper 3A

- As explained in detail in Agenda paper 3A, variable payments linked to the future performance of the purchaser (or the operator in this case), such as variable payments based on future revenues or other similar profit-sharing agreements, would not be considered reasonably assured and would not be initially included in the initial cost of the intangible asset and in the initial measurement of the liability.
- The concession payments in this example are dependent on the future performance of the operator and are not based on an index or rate.
- Consequently, the future concession payment of CU1 per user would not be initially recognised in the cost of the intangible asset. In other words, at the end of year 1, the construction services have been fully delivered, whereas none of the operation services have been delivered. Consequently, the journal entries at the end of year 1 are:

  Dr Concession asset CU40,000

  Cr Revenue CU40,000

Recognition of the revenue for year 1 based on the overall consideration and the relative fair value of the goods and services provided.

- At the end of each period, when the CU1 per user becomes reasonably assured ie when the corresponding revenue is recognised, the operator would need to determine whether the amount either represents a benefit for a future period or whether the benefit relates to a current or prior period.
- In this example, because the payment of the CU1 per user does not represent a benefit for a future period (because the operator has already consumed the portion of the related intangible asset), the operator would recognise the CU1 per user as an expense at the end of year 2.

- Consequently, the journal entries at the end of year 2 are:

Dr Cash		CU12,000	
	Cr Revenue		CU12,000
Dr Concession fee		CU1,200	
	Cr Cash		CU1,200

Recognition of the revenue for year 2 and recognition of an expense for the remeasurement of a contingent payment for an intangible asset.

Example 3: Variable fee based on an index

- For example, Entity O ('the operator') is the operator and Entity G ('the grantor') is the grantor in an 11 year service concession arrangement within the scope of IFRIC 12.
- The operator begins constructing a toll road on behalf of the grantor at the beginning of year 1, and following this the operator will have the right to operate the public toll road on behalf of the grantor for the remaining years of the concession arrangement. The terms of the agreement state that the operator initially has the right to charge users of the public service (intangible asset model) an amount of CU10 per car over the concession term.
- The operator agrees to initially pay to the grantor a concession fee of CU1,000 per year from year 2, with the amount increasing each year based on CPI. The operator initially thinks that the total number of users during the concession will be 11,000. By the end of year 2, 1,100 users have used the toll road. The payment to the grantor does not represent the payment for a distinct good or service.
- At the end of year 1, the operator completes construction of the toll road and begins to operate the toll road at the start of year 2. At the start of year 2 when the right to charge the public is obtained, CPI is 5%. At the end of year 2, the operator makes a payment to the grantor of CU1,050 and CPI resets to the then current rate of 10%. For the purposes of this example, assume that the present value of the future concession payments is CU8,000 at the start of year 2. At the end of year 2, the movement of the liability will be made up of:

- an increase as a result of the interest expense (recognised through net profit). For the purposes of this example, assume that the interest expense at the end of year 2 is CU420; less
- the decrease as a result of the payment of CU1,050; plus
- the remeasurement of the present value of the remaining future concession fee payments, based on the original 5% discount rate. For the purposes of this example, assume that the amount of the remeasurement is CU735.

- Assume that the fair value of the construction services is CU40,000 and the fair value of the operation services is CU60,000. The operation services are assumed to be provided evenly over years 2-11.
- Economically, the service concession is initially thought to be worth CU110,000 (present value of CU10 per car × 11,000 cars), whereas the concession services are thought to be worth CU100,000 (construction of CU40,000 + operation of CU60,000). Consequently, the payment of CU1,000 per year for years 2 – 11 is intended to compensate the grantor for the fact that the service concession is relatively more valuable than the operator's services.

<u>Proposed application of the variable payments to acquire an intangible asset as explained in Agenda paper 3A.</u>

- As explained in detail in Agenda paper 3A, variable payments linked to an index would be included in the initial cost of the intangible asset and in the initial measurement of the liability.
- The intangible asset is recognised at the end of year one, because it is at this time that the operator completes the construction which results in the operator obtaining control of the concession right to charge the public. Consequently, the liability is recognised at the end of year one as well.
- The concession payments in this example are dependent on CPI which is an observable index.
- Consequently, the present value of the future concession payment of CU1,000 per year would be initially recognised in the cost of the concession right intangible asset when it is recognised. In other words, at the end of year 1, the construction services have been fully delivered, whereas none of the operation services have been delivered. Consequently, the journal entries at the end of year 1 are:

  Dr Concession asset CU40,000

Cr Revenue CU40,000

Recognition of the revenue for year 1 based on the overall consideration and the relative fair value of the goods and services provided.

Dr Concession asset CU8,000

Cr Liability CU8,000

Recognition of the future payment related to the acquisition of an intangible asset that is contingent on an index.

- At the end of year 2, the operator would need to remeasure the liability. In this example, because the remeasurement of the liability relates to a benefit for a future period (because the operator has not yet consumed the portion of the related intangible asset), the operator would recognise the change in the liability as an adjustment to the intangible asset.
- Consequently, the journal entries at the end of year 2 are:

Dr Cash CU11,000

Cr Revenue CU11,000

Recognition of the revenue for year 2.

Dr Interest expense CU420

Cr liability CU420

Recognition of the interest expense on the liability for year 2.

Dr liability CU1,150

Cr liability CU1,150

Recognition of the payment of a portion of the liability at the end of year 2.

Dr Concession asset CU735

Cr liability CU735

Recognition of the increase in the cost of the intangible asset linked to the remeasurement of a contingent payment for the cost of an intangible asset.

Variable concession fees - Hybrid model

19. As explained in paragraph 5 above, when the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor, judgement is required in order to determine whether the concession payment should be treated as an adjustment to the consideration (as in the financial asset model) or an incremental payment for the concession right (intangible asset model). The accounting for the concession payment would then follow one of the two approaches explained in the preceding paragraphs.

20. In applying judgement to determine the substance of the arrangement, we think that the level of guarantee provided by the grantor to the operator (which results in the recognition of a financial asset for construction services in this type of service concession arrangement) is a useful indicator in deciding if the concession payments represent an incremental payment in exchange for a right to charge users of the public or a reduction in the overall consideration with the grantor. Specifically:

    (a) if the fair value of the operator's services (construction and operation) exceeds the guaranteed amount, this indicates that the accounting should follow that explained in the application of the intangible asset model, ie the payment represents a "top up" payment to cover the shortfall between the fair value of the operator's services provided and the fair value of the concession right received; however

    (b) if the fair value of the operator's services is less than the guaranteed amount, this indicates that the accounting should follow that explained in the application of the financial asset model, ie the payment represents a reduction in the overall consideration.

Section B – proposed amendment to IFRIC 12

How best to amend IFRIC 12

21. IFRIC 12 sets out the general principles on recognising and measuring the obligations and related rights in service concession arrangements. However, in many paragraphs in IFRIC 12, there is a cross reference to existing IFRSs. We think this is logical since IFRIC 12 is an interpretation of how to apply existing IFRSs to a type of arrangement.

22. Consequently, in determining the most efficient way to amend IFRIC 12 to take into account the tentative decisions of the Committee, we think that where possible, IFRIC 12 should cross refer to existing IFRS literature rather than incorporate new guidance into IFRIC 12 because many of the principles in IFRIC 12 could apply to transactions that are not service concession arrangements, as explained in Agenda paper 3A.

23. Consequently, we recommend that the issue of variable versus fixed concession payments is not addressed directly in IFRIC 12, but rather by cross referring to the relevant IFRSs. In other words, when there is a concession payment that does not represent a separate good or service:

    (a) where the concession arrangement results in the application of the financial asset model, IFRIC 12 should cross refer to IAS 18 to provide guidance on the concession payment;

    (b) where the concession arrangement results in the application of the intangible asset model, IFRIC 12 should cross refer to IAS 38 to provide guidance on the concession payment; and

    (c) where the concession arrangement results in the application of the hybrid model, IFRIC 12 should cross refer to either IAS 38 or IAS 18 depending on the substance of the concession payment.

Timing of any amendment to IFRIC 12

24. We understand that the measurement of any intangible asset, specifically where variable payments are involved, is something that is linked to the principles that are being developed in Agenda paper 3A. Consequently, we recommend that any exposure draft for amendments to IFRIC 12 is issued at the same time as any amendments that might be proposed to the measurement of cost and variable consideration in IAS 16 or IAS 38.

25. As discussed at the March 2012 Committee meeting, we think that by considering the proposed amendments to IFRIC 12, IAS 16 and IAS 38 now, the Committee will be in a position to move relatively more quickly in issuing guidance once the principles in the Leases project have been finalised.

26. We have included our proposed draft amendment to IFRIC 12 in Appendix A to this paper.

Questions for the Committee
1. Does the Committee agree with the staff analysis of variable concession payments in section A to this paper? 2. Does the Committee agree with the proposed amendment to IFRIC 12 included in Appendix A to this paper? 3. Does the Committee agree with the staff recommendation that any proposed amendment to IFRIC 12 should be exposed at the same time that the proposed amendments to IAS 16 / IAS 38 are issued as explained in Agenda paper 3A?

Appendix A – proposed amendment to IFRIC 12

Amendment to IFRIC 12 *Service Concession Arrangements*

Paragraphs 10 and 27 are amended as follows (new text is underlined) and paragraphs 7A and 27A are added. Paragraph 7 is not proposed for amendment but is included here for ease of reference:

7 This Interpretation applies to both:

a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and

b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.

7A If the operator is given access to assets (either directly or indirectly via third party arrangements involving the grantor) in exchange for payments, the operator shall assess whether the assets provided are infrastructure within the scope of this Interpretation, or whether the access represents a lease in the scope of IAS 17 *Leases*. The following factors indicate that the assets are infrastructure within the scope of this Interpretation:

a) the grantor retains control over the use to which the asset is put, by controlling or regulating what services the operator must provide, to whom it must provide them, and at what price, as described in paragraph 5(a);

b) the grantor retains control over any significant residual interest in the asset at the end of the period of the arrangement; and

c) the operator does not have a right of use of the underlying asset but rather access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

10 This Interpretation sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements. Requirements for disclosing information about service concession arrangements are in SIC-29. The issues addressed in this Interpretation are:

(a) treatment of the operator's rights over the infrastructure;

…

(f) subsequent accounting treatment of a financial asset and an intangible asset; ~~and~~

(g) items provided to the operator by the grantor~~.~~; and

(h) payments made by the operator to the grantor.

27 In accordance with paragraph 11, infrastructure items to which the operator is given access by the grantor for the purposes of the service arrangement are not recognised as property, plant and equipment of the operator. If the grantor provides the operator access to the infrastructure and the operator is required to make payments to the grantor in exchange for this access, the operator shall account for these payments in accordance with paragraph 27A of this Interpretation. The grantor may also provide other items to the operator that the operator can keep or deal with as it wishes. If such assets form part of the consideration payable by the grantor for the services, they are not government grants as defined in IAS 20. They are recognised as assets of the operator, measured at fair value on initial recognition. The operator shall recognise a liability in respect of unfulfilled obligations it has assumed in exchange for the assets.

Payments made by the operator to the grantor

27A As part of the service concession arrangement, the operator may be required to make payments to the grantor, or in some cases, third parties. When this is the case, the operator should analyse the payments in the following way:

a) if the payment gives the operator a right to a good or service that is distinct from the service concession arrangement (for example if the payment represents an embedded lease payment as explained in paragraph 7A above), the operator should account for that distinct good or service in accordance with the applicable IFRS;

b) if the concession payment does not give the operator a right to a distinct good or service, the type of service concession arrangement should be considered to determine the accounting for the concession payment:

   i. if the service concession results in the operator having a contractual right to receive cash from only the grantor as described in paragraph 16, then the concession payment is accounted for as an adjustment to the consideration in a manner consistent with IAS 18;

   ii. if the service concession arrangement results in the operator having only a right to charge users of the public service as explained in paragraph 17, then the concession payment is accounted for as incremental consideration for the intangible asset when applying paragraph 26; and

iii. if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor as explained in paragraph 18, then the amount of the contractual right to receive cash from the grantor needs to be compared with the fair value of the operator’s services in making the judgement of whether the concession payment represents an adjustment to the consideration or incremental consideration for the intangible asset.

Appendix B – summary of tentative Committee decisions to date