

**IPSAS 32 - SERVICE CONCESSION ARRANGEMENTS: GRANTOR
as adopted by the Maltese Government**

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International Public Sector Accounting Standard 32, *Service Concession Arrangements: Grantor*, as adopted by the Maltese Government is set out in the objective and paragraphs 1–37A. All the paragraphs have equal authority. IPSAS 32¹ should be read in the context of its objective. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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¹ References to IPSAS 32 or any other IPSAS shall be taken as meaning ‘as adopted by the Maltese Government’

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a Central Government entity.

Scope

2. **An entity² that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.**
3. [Deleted]
4. [Deleted]
5. Arrangements within the scope of this Standard involve the operator providing public services related to the service concession asset on behalf of the grantor.
6. Arrangements outside the scope of this Standard are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (e.g., outsourcing, service contracts, or privatisation).
7. [Not used]

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

A **binding arrangement**, for the purposes of this Standard, describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

Central Government Entities means Government Ministries and Departments.

A **grantor**, for the purposes of this Standard, is the entity that grants the right to use the service concession asset to the operator.

An **operator**, for the purposes of this Standard, is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

A **service concession arrangement** is a binding arrangement between a grantor and an operator in which:

- (a) **The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and**
- (b) **The operator is compensated for its services over the period of the service concession arrangement.**

A **service concession asset** is an asset used to provide public services in a service concession arrangement that:

- (a) **Is provided by the operator which:**
 - (i) **The operator constructs, develops, or acquires from a third party; or**
 - (ii) **Is an existing asset of the operator; or**
- (b) **Is provided by the grantor which:**

² An entity for the purposes of this Standard is referred to as the grantor.

- (i) Is an existing asset of the grantor; or
- (ii) Is an upgrade to an existing asset of the grantor.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are published separately.

Recognition and Measurement of a Service Concession Asset

9. The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:
 - (a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
 - (b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.
10. This Standard applies to an asset used in a service concession arrangement for its entire useful life (a “whole-of-life” asset) if the conditions in paragraph 9(a) are met.
11. The grantor shall initially measure the service concession asset recognised in accordance with paragraph 9 (or paragraph 10 for a whole- of-life asset) at its fair value, except as noted in paragraph 12.
12. Where an existing asset of the grantor meets the condition specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted for in accordance with IPSAS 17, *Property, Plant, and Equipment* or IPSAS 31, *Intangible Assets*, as appropriate.
13. After initial recognition or reclassification, service concession assets shall be accounted for as a separate class of assets in accordance with IPSAS 17, *Property, Plant and Equipment* or IPSAS 31, *Intangible Assets*, as appropriate.

Recognition and Measurement of Liabilities

14. Where the grantor recognises a service concession asset in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor shall also recognise a liability. The grantor shall not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph 12, except in circumstances where additional consideration is provided by the operator, as noted in paragraph 15.
15. The liability recognised in accordance with paragraph 14 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph 11, adjusted by the amount of any other consideration (e.g. cash) from the grantor to the operator, or from the operator to the grantor.
16. The nature of the liability recognised is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.
17. In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:
 - (a) Making payments to the operator (the “financial liability” model);
 - (b) Compensating the operator by other means (the “grant of a right to the operator” model) such as:

- (i) Granting the operator, the right to earn revenue from third-party users of the service concession asset; or
- (ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial Liability Model

- 18. **Where the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor shall account for the liability recognised in accordance with paragraph 14 as a financial liability.**
- 19. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:
 - (a) Specified or determinable amounts; or
 - (b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts referred to in paragraph 19(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.
- 20. IPSAS 28, *Financial Instruments: Presentation*, the derecognition requirements in IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures* apply to the financial liability recognized under paragraph 14, except where this Standard provides requirements and guidance.
- 21. **The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognised in accordance with paragraph 14, a finance charge, and charges for services provided by the operator.**
- 22. **The finance charge and charges for services provided by the operator in a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses.**
- 23. **Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator shall be allocated by reference to the relative fair values of the service concession asset and the services. Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator is determined using estimation techniques.**

Grant of a Right to the Operator Model

- 24. **Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor shall account for the liability recognised in accordance with paragraph 14 as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.**
- 25. **The grantor shall recognise revenue and reduce the liability recognised in accordance with paragraph 24 according to the economic substance of the service concession arrangement.**
- 26. Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset, the exchange is regarded as a transaction that

generates revenue. As the right granted to the operator is effective for the period of the service concession arrangement, the grantor does not recognise revenue from the exchange immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned. The revenue is recognised according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognised.

Dividing the Arrangement

27. **If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognised in accordance with paragraph 14. The amount initially recognised for the total liability shall be the same amount as that specified in paragraph 15.**
28. **The grantor shall account for each part of the liability referred to in paragraph 27 in accordance with paragraphs 18–26.**

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets

29. **The grantor shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 28 *Financial Instruments: Presentation*, IPSAS 29 *Financial Instruments: Recognition and Measurement*, and IPSAS 30 *Financial Instruments: Disclosures*.**

Other Revenues

30. **The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–26, in accordance with IPSAS 9, *Revenue from Exchange Transactions*.**

Presentation and Disclosure

31. **The grantor shall present information in accordance with IPSAS 1.**
32. **All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of service concession arrangements in each reporting 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) **Rights to expect the operator to provide specified services in relation to the service concession arrangement;**
 - (iii) **Service concession assets recognised as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;**
 - (iv) **Rights to receive specified assets at the end of the service concession arrangement;**

- (v) **Renewal and termination options;**
- (vi) **Other rights and obligations (e.g., major overhaul of service concession assets); and**
- (vii) **Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and**

(d) **Changes in the arrangement occurring during the reporting period.**

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving series of a similar nature (e.g. toll collections, telecommunications or water treatments services). This disclosure is in addition to the disclosures required in IPSAS 17 and/or IPSAS 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with IPSAS 17 and/or IPSAS 31 or may be included in more than one class of assets disclosed in accordance with IPSAS 17 and/or IPSAS 31. For example, for the purposes of IPSAS 17 a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

Transition

34. [Not used]

35. [Not used]

Effective Date

36. [Not used]

37. [Not used]

37A. Central Government entities shall apply this standard for annual financial statements covering periods beginning on or after DD/MM/YY. Earlier application is not permitted.

Appendix 1 Comparison with IPSAS 32

IPSAS 32 Service Concession Arrangements: Grantor as adopted by the Maltese Government is drawn from IPSAS 32 Service Concession Arrangements: Grantor.

The following are the significant differences between IPSAS 32 as adopted by the Maltese Government and IPSAS 32:

Section/s	IPSAS 32 (as adopted)	IPSAS 32
1	Reference is made to central government entity as the grantor.	Reference is made to public sector entity as the grantor.