

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2017-10
May 2017

Service Concession Arrangements (Topic 853)

Determining the Customer of the
Operation Services

a consensus of the FASB Emerging Issues Task Force

An Amendment of the FASB Accounting Standards Codification®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

Stakeholders observed that there is diversity in practice in how an operating entity determines the customer of the operation services for transactions within the scope of Topic 853, Service Concession Arrangements. This Update addresses that diversity.

A service concession arrangement is an arrangement between a grantor and an operating entity whereby the operating entity will operate the grantor's infrastructure (for example, airports, roads, bridges, tunnels, prisons, and hospitals) for a specified period of time. The operating entity also may maintain the infrastructure, and it also may be required to provide periodic capital-intensive maintenance (major maintenance) to enhance or extend the life of the infrastructure. The infrastructure already may exist or may be constructed by the operating entity during the period of the service concession arrangement.

Topic 853 provides guidance for operating entities when they enter into a service concession arrangement with a public-sector grantor who both:

1. Controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price
2. Controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

In a service concession arrangement within the scope of Topic 853, the operating entity should not account for the infrastructure as a lease or as property, plant, and equipment. An operating entity should refer to other Topics to account for various aspects of a service concession arrangement. For example, an operating entity should account for revenue relating to construction, upgrade, or operation services in accordance with Topic 605, Revenue Recognition, or Topic 606, Revenue from Contracts with Customers. In applying the revenue guidance under Topic 605, stakeholders noted that it is not clear whether the customer of the operation services is the grantor or the third-party users for certain service concession arrangements. In turn, this uncertainty resulted in diversity in practice when applying certain aspects of Topic 605. Similar issues could also arise under Topic 606.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to the accounting by operating entities for service concession arrangements within the scope of Topic 853.

What Are the Main Provisions?

The main provisions of this Update are illustrated by the following example: A public-sector entity grantor (government) enters into an arrangement with an operating entity under which the operating entity will provide operation services (which include operation and general maintenance of the infrastructure) for a toll road that will be used by third-party users (drivers). The amendments in this Update clarify that the grantor (government), rather than the third-party drivers, is the customer of the operation services in all cases for service concession arrangements within the scope of Topic 853.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

GAAP currently does not address how an operating entity should determine the customer of the operation services for transactions within the scope of Topic 853, which led to diversity in practice. The amendments in this Update eliminate that diversity in practice (by clarifying that the grantor is the customer of the operation services in all cases for those arrangements) and enable more consistent application of other aspects of the revenue guidance, which are affected by this customer determination.

When Will the Amendments Be Effective?

Entity Has Not Yet Adopted Topic 606

For an entity that has not adopted Topic 606 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update generally are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*). Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, deferred the effective date of Update 2014-09 by one year.

Specifically, an entity that adopts Topic 606 after the issuance of this Update (whether the adoption of Topic 606 is at the required effective date or earlier)

should adopt the amendments in this Update at the same time that the entity adopts Topic 606 and should apply the amendments in this Update using the same transition method elected for the application of Topic 606 (including applying the same practical expedients, to the extent applicable), unless the entity elects to early adopt the amendments in this Update before adopting Topic 606.

An entity may apply the amendments in this Update earlier, including within an interim period, even though the entity has not yet adopted Topic 606. An entity that early adopts this Update is required to apply the amendments in this Update using either (1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (2) a retrospective approach. The transition disclosures depend on the transition method that the entity elects for the amendments in this Update. If an entity elects to early adopt the amendments in this Update in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that early applies the amendments in this Update prior to adopting Topic 606 is not permitted to use any of the practical expedients provided in paragraph 606-10-65-1(f).

Entity Already Has Adopted Topic 606

For an entity that has adopted Topic 606 before the issuance of this Update, the effective date of the amendments in this Update is as follows:

1. For a public business entity, a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.
2. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

An entity that already has adopted Topic 606 is required to apply the amendments in this Update using either (1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (2) a retrospective approach. The transition method that the entity uses for the amendments in this Update is not required to be the same as the transition method that the entity used when adopting Topic 606. However, when applying the amendments in this Update, an entity is required to use the same practical expedients that the entity elected to use in paragraph 606-10-65-1(f) when initially applying Topic 606, to the extent applicable. The transition disclosures depend on the transition method that the entity uses for the amendments in this Update.

An entity that already has adopted Topic 606 may apply the amendments in this Update earlier, including within an interim period. If an entity early adopts the amendments in this Update in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 853-10

2. Amend paragraph 853-10-25-1, with a link to transition paragraph 853-10-65-2, as follows:

Service Concession Arrangements—Overall

Overview and Background

853-10-05-1 A service concession arrangement is an arrangement between a grantor and an operating entity for which the terms provide that the operating entity will operate the grantor's infrastructure (for example, airports, roads, bridges, tunnels, prisons, and hospitals) for a specified period of time. The operating entity may also maintain the infrastructure. The infrastructure already may exist or may be constructed by the operating entity during the period of the service concession arrangement. If the infrastructure already exists, the operating entity may be required to provide significant upgrades as part of the arrangement. Service concession arrangements can take many different forms.

853-10-05-2 In a typical service concession arrangement, an operating entity operates and maintains for a period of time the infrastructure of the grantor that will be used to provide a public service. In exchange, the operating entity may receive payments from the grantor to perform those services. Those payments may be paid as the services are performed or over an extended period of time. Additionally, the operating entity may be given a right to charge the public (the third-party users) to use the infrastructure. The arrangement also may contain an unconditional guarantee from the grantor under which the grantor provides a guaranteed minimum payment if the fees collected from the third-party users do not reach a specified minimum threshold. This Topic provides guidance for

reporting entities when they enter into a service concession arrangement with a public-sector grantor who controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price (which could be set within a specified range). The grantor also controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

Scope and Scope Exceptions

> Overall Guidance

853-10-15-1 The Scope Section of the Overall Subtopic establishes the scope for the Service Concession Arrangements Topic.

> Entities

853-10-15-2 The guidance in this Topic applies to the accounting by operating entities of a service concession arrangement under which a public-sector entity grantor enters into a contract with an operating entity to operate the grantor's infrastructure. The operating entity also may provide the construction, upgrading, or maintenance services of the grantor's infrastructure.

853-10-15-3 A public-sector entity includes a governmental body or an entity to which the responsibility to provide public service has been delegated. In a service concession arrangement, both of the following conditions exist:

- a. The grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.
- b. The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

853-10-15-4 A service concession arrangement that meets the scope criteria in Topic 980 on regulated operations shall apply the guidance in that Topic and not follow the guidance in this Topic.

Recognition

853-10-25-1 An operating entity shall account for revenue from service concession arrangements in accordance with Topic 605 on revenue recognition or Topic 606 on revenue from contracts with customers, as applicable. In applying Topic 605 or Topic 606, an operating entity shall consider the grantor to be the customer of its operation services in all cases for service concession arrangements within the

scope of this Topic. An operating entity shall refer to other Topics to account for the various other aspects of a service concession arrangements arrangement. For example, an operating entity shall account for revenue and costs relating to construction, upgrade, or operation services in accordance with Topic 605 on revenue recognition.

[In addition, add the following pending content with a link to transition paragraph 606-10-65-1.]

Pending Content:

Transition Date: (P) December 16, 2017; (N) December 16, 2018 | **Transition Guidance:** 606-10-65-1

853-10-25-1 An operating entity shall account for revenue from service concession arrangements in accordance with Topic 606 on revenue from contracts with customers. In applying Topic 606, an operating entity shall consider the grantor to be the customer of its operation services in all cases for service concession arrangements within the scope of this Topic. An operating entity shall refer to other Topics to account for the various other aspects of service concession arrangements.

> The Operating Entity's Rights over the Infrastructure

853-10-25-2 The infrastructure that is the subject of a service concession arrangement within the scope of this Topic shall not be recognized as property, plant, and equipment of the operating entity. Service concession arrangements within the scope of this Topic are not within the scope of Topic 840 on leases, as indicated in paragraph 840-10-15-9A.

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

853-10-25-2 The infrastructure that is the subject of a service concession arrangement within the scope of this Topic shall not be recognized as property, plant, and equipment of the operating entity. Service concession arrangements within the scope of this Topic are not within the scope of Topic 842 on leases.

3. Add paragraph 853-10-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2017-10, Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services

853-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2017-10, Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services:

- a. An entity that has not adopted the pending content that links to paragraph 606-10-65-1 shall adopt the pending content that links to paragraph 853-10-65-2 at the same time that it adopts the pending content that links to paragraph 606-10-65-1, unless the entity elects to early adopt the pending content that links to paragraph 853-10-65-2 as permitted in (c). An entity that adopts the pending content that links to paragraphs 606-10-65-1 and 853-10-65-2 at the same time shall apply the same transition method elected for (including the same practical expedients, to the extent applicable), and provide the same transition disclosures required by, the pending content that links to paragraph 606-10-65-1.
- b. An entity that has adopted the pending content that links to paragraph 606-10-65-1 before applying the pending content that links to paragraph 853-10-65-2 shall apply the pending content that links to paragraph 853-10-65-2 as follows, unless the entity elects to early adopt the pending content that links to paragraph 853-10-65-2 as permitted in (c):
 1. For a **public business entity**, a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission, for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.
 2. For all other entities, for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.
- c. Earlier application of the pending content that links to this paragraph is permitted for all entities, including earlier application in an interim period, subject to the transition guidance in (d) through (i).
- d. For the purposes of the transition guidance in (e) through (i):
 1. The date of initial application is the start of the fiscal year in which an entity first applies the pending content that links to this paragraph (whether the entity first adopts the pending content that links to this paragraph at the start of a fiscal year or at the start of an interim period other than the first interim period).

2. A completed contract is a contract for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that is in effect before the date of initial application.
- e. An entity described in (a) that early adopts the pending content that links to this paragraph, or an entity described in (b) (whether it adopts the pending content that links to this paragraph at the required effective date or earlier), shall apply the pending content that links to this paragraph using one of the following two methods:
 1. Retrospectively to each prior period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10, subject to (f) and (i).
 2. Retrospectively with the cumulative effect of initially applying the pending content that links to this paragraph recognized at the date of initial application in accordance with (g) through (i).
 - f. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (e)(1), the entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-2 in the period of adoption, except as follows. An entity need not disclose the effect of the changes on the current period, which otherwise is required by paragraph 250-10-50-1(b)(2). However, an entity shall disclose the effect of the changes on any prior periods that have been retrospectively adjusted.
 - g. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (e)(2), the entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) of the annual period that includes the date of initial application. Under this transition method, an entity may elect to apply the pending content that links to this paragraph retrospectively either to all contracts at the date of initial application or only to contracts that are not completed contracts at the date of initial application. An entity shall disclose whether it has applied the pending content that links to this paragraph to all contracts at the date of initial application or only to contracts that are not completed contracts at the date of initial application.
 - h. For periods that include the date of initial application, an entity that applies the pending content that links to this paragraph retrospectively in accordance with (e)(2) shall disclose the nature of and reason for the change in accounting principle and provide both of the following disclosures:
 1. The amount by which each financial statement line item is affected in the current period by the application of the pending content that links to this paragraph as compared with the guidance that was in effect before the change.
 2. An explanation of the reasons for significant changes identified in (h)(1).

- i. Paragraph 606-10-65-1(f) includes several practical expedients for transition.
 1. An entity that early adopts the pending content that links to paragraph 853-10-65-2 before adopting the pending content that links to paragraph 606-10-65-1 shall not use any of the practical expedients provided in paragraph 606-10-65-1(f).
 2. An entity described in (b) that adopts the pending content that links to paragraph 853-10-65-2 (whether at the required effective date or earlier) shall use the same practical expedients that the entity used when initially applying the pending content that links to paragraph 606-10-65-1, to the extent applicable, and shall comply with the transition guidance provided in paragraph 606-10-65-1(g).

Amendments to Status Section

4. Amend paragraph 853-10-00-1, by adding the following items to the table, as follows:

853-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Public Business Entity	Added	2017-10	05/16/2017
853-10-25-1	Amended	2017-10	05/16/2017
853-10-65-2	Added	2017-10	05/16/2017

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Harold L. Monk
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

Background Information

BC2. Current GAAP for transactions within the scope of Topic 853 requires that operating entities refer to other Topics in accounting for the various aspects of a service concession arrangement. However, the application of other Topics to the unique nature of service concession arrangements recently led to a number of accounting questions and, in particular, questions about applying Topic 605 when accounting for construction, upgrade, and operation services. In addressing those questions, some stakeholders looked to the guidance in International Financial Reporting Interpretations Committee (IFRIC) Interpretation 12, *Service Concession Arrangements* (IFRIC 12) (see paragraphs BC13 through BC15 for additional information on the accounting guidance provided in IFRIC 12). The primary accounting question the Task Force decided to address is how to determine the customer of the operation services in a service concession arrangement within the scope of Topic 853. Depending on the terms of a service concession arrangement, some stakeholders asserted that the third-party users can be the customer of the operation services, while other stakeholders asserted that the grantor is always the customer of the operation services considering the scope of, and decisions reflected in, Topic 853. This uncertainty about the customer determination resulted in diversity in practice in how an operating entity presents payments made by the operating entity to the grantor for the right to operate and maintain the grantor's infrastructure. It also added complexity (and in turn resulted in further diversity in practice) to the application of other aspects of Topic 605, such as recognizing revenue for construction services in certain service concession arrangements, determining whether major maintenance is a separate deliverable, and evaluating whether major maintenance can be capitalized when it is not a separate deliverable. Similar accounting issues also could arise under Topic 606.

BC3. At its September 22, 2016 meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 16-C, "Determining the Customer of the Operation

Services in a Service Concession Arrangement." The Board subsequently ratified that consensus-for-exposure on October 5, 2016, and on November 4, 2016, issued proposed Accounting Standards Update, *Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services*, for public comment, with a comment period that ended on January 6, 2017. The Board received eight comment letters on the proposed Update. In addition to evaluating feedback resulting from the comment letter process, the staff obtained additional feedback through outreach with financial statement users.

BC4. The Task Force considered feedback received on the proposed Update at its March 16, 2017 meeting and reached a consensus. The Board subsequently ratified the consensus, resulting in the issuance of this Update.

Basis for Conclusions

Scope

BC5. The Task Force reached a consensus that the amendments in this Update should apply to service concession arrangements that are within the scope of Topic 853.

Recognition

Determining the Customer of the Operation Services in a Service Concession Arrangement

BC6. In a service concession arrangement, an operating entity may provide construction services when the infrastructure does not exist and may provide operation services (which include operation and general maintenance of the infrastructure). Other services also may be provided. It is generally accepted that the grantor is the customer of any construction services provided by the operating entity because the construction services create or enhance an asset that the grantor controls. However, the current lack of guidance in GAAP for operation services led to diversity in practice, and some operating entities looked to IFRIC 12 for additional guidance. Accordingly, some operating entities concluded that the customer of the operation services depends on the terms of the service concession arrangement, including who bears demand risk (that is, the ability and willingness of users to pay for the service), which is an evaluation consistent with IFRIC 12. In contrast, other operating entities concluded that the customer of the operation services is the grantor in all cases after considering the scope of, and decisions reflected in, Topic 853.

BC7. The Task Force reached a consensus that the grantor is the customer of the operation services in all cases for service concession arrangements within the

scope of Topic 853. Current guidance in Topic 853 states that both of the following conditions exist in a service concession arrangement:

- a. The grantor controls or has the ability to modify or approve the services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.
- b. The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

The infrastructure that is the subject of a service concession arrangement within the scope of Topic 853 should not be accounted for as a lease or as property, plant, and equipment by the operating entity. Accordingly, the Task Force determined that the customer of the operation services is the grantor because the operating entity is acting as the grantor's service provider (or outsourcer) to operate and maintain the infrastructure, which is controlled by the grantor, and the only parties to the executed service concession arrangement are the grantor and the operating entity.

BC8. One Task Force member noted that the conclusion that the grantor is the customer of the operation services in all cases is not consistent with IFRIC 12. That Task Force member observed that IFRIC 12 is similar in scope to Topic 853 and similarly concludes that the infrastructure in a service concession arrangement should not be accounted for as a lease or as property, plant, and equipment by the operating entity. Yet, in IFRIC 12 the customer of the operation services could be either the grantor or the third-party users depending on the terms of the service concession arrangement, including who bears demand risk. However, that Task Force member also acknowledged that the Task Force could reach a different conclusion without contradicting IFRIC 12 because GAAP, unlike IFRIC 12, does not currently describe the operating entity's role and rights when it has demand risk in a service concession arrangement. Other Task Force members, while understanding the notion of demand risk, noted that demand risk does not outweigh the fact that the grantor controls or has the ability to modify or approve the services the operating entity must provide with the infrastructure, to whom it must provide them, and at what price. Some Task Force members also observed that demand risk is only an economic variable considered in the negotiation and pricing of a service concession arrangement; it is not the determinant of who the customer is for accounting purposes.

BC9. While some Task Force members noted that the way in which the customer of the operation services is determined might be based on the facts and circumstances of a particular transaction (in part because service concession arrangements can take many different forms), the Task Force ultimately decided that the grantor is the customer of the operation services in all cases for the reasons described in paragraph BC7.

Disclosure

BC10. The Task Force also considered whether to require additional disclosures about the identification of the customer of the operation services. Because the Task Force reached a consensus that the grantor is the customer of the operation services in all cases, the Task Force decided not to require any additional disclosures because those disclosures would not result in any incremental information to users.

Other Aspects of the Revenue Guidance

BC11. Considering the consensus described in paragraph BC7, the Task Force noted that it addressed the diversity in practice observed about the recognition of revenue from construction services in certain service concession arrangements in which the third-party users were considered the customer of the operation services by some stakeholders. Accordingly, the Task Force determined that no additional guidance was necessary for that particular aspect of the revenue guidance. The Task Force also considered whether it was necessary to clarify other aspects of the revenue guidance, such as determining whether major maintenance is a separate deliverable under Topic 605 (or a separate performance obligation under Topic 606) or evaluating whether major maintenance can be capitalized when it is not a separate deliverable (or a separate performance obligation). The Task Force noted that the clarification provided by the consensus described in paragraph BC7 addresses the added complexity and resulting diversity in practice that were created by the uncertainty about the customer determination and observed in the application of those other aspects of the revenue guidance. The Task Force noted that sufficient accounting guidance exists in GAAP and, accordingly, concluded that no further standard setting was necessary.

BC12. Some respondents to the proposed Update also requested that the Task Force clarify certain aspects related to its conclusion about how an operating entity determines the customer of the operation services. Specifically, one respondent questioned whether it would be appropriate to apply the conclusion described in paragraph BC7 by analogy to arrangements that are not within the scope of Topic 853. However, the Task Force considered that the conclusion that the grantor is the customer of the operation services in all cases is based on the specific scope criteria and related accounting requirements of Topic 853. Those conditions, which are specific to transactions within the scope of Topic 853, led the Task Force to conclude that the operating entity is acting as the grantor's service provider and that, accordingly, applying this conclusion by analogy to other transactions that are not within the scope of Topic 853 may lead to inappropriate conclusions. Another respondent requested additional implementation guidance in Topic 853 on the accounting for contract-related payments made by an operating entity to the grantor. However, the Task Force observed that the implementation questions raised by that respondent are not solely applicable to service concession

arrangements but rather are common in many industries. Accordingly, the Task Force decided not to address those additional requests.

Comparison with International Financial Reporting Standards (IFRS)

BC13. As described in paragraph BC8, IFRIC 12 is similar in scope to Topic 853 and similarly concludes that the infrastructure that is the subject of a service concession arrangement should not be accounted for as a lease or as property, plant, and equipment by the operating entity. However, IFRIC 12 contains additional requirements because it clarifies how an operating entity applies certain aspects of existing IFRS in accounting for various aspects of service concession arrangements. Under IFRIC 12, the consideration received or to be received by the operating entity in exchange for construction or upgrade services may result in the operating entity recognizing a financial asset (as defined under IFRS), an intangible asset, or a combination of the two. The operating entity recognizes a financial asset to the extent it receives an unconditional contractual right to receive cash or another financial asset in return for construction or upgrade services performed. The operating entity recognizes an intangible asset to the extent it receives from the grantor the right to charge users for the use of the infrastructure in return for construction or upgrade services performed. IFRIC 12 requires that an operating entity recognize both a financial asset and an intangible asset if the operating entity is paid for the construction or upgrade services partly by a financial asset and partly by an intangible asset. The IFRS Interpretations Committee noted that when the operating entity receives an intangible asset in exchange for its construction services, there are two sets of inflows and outflows rather than one. In the first set, the construction services are exchanged for the intangible asset in a barter transaction with the grantor. In the second set, the intangible asset received from the grantor is used up to generate cash flows from users of the public service.

BC14. The IFRS Interpretations Committee recently discussed a request it received to clarify how an operating entity accounts for payments it makes to a grantor in a service concession arrangement within the scope of IFRIC 12. The IFRS Interpretations Committee also observed that if payments are not for the right to a separate good or service or a separate right of use that is a lease, then the operating entity accounts for those payments as follows:

- a. If the service concession arrangement results in the operating entity having only a contractual right to receive cash from the grantor (that is, the financial asset model applies as described in paragraph 16 of IFRIC 12), the operating entity accounts for those payments as a reduction of the transaction price, applying the requirements for consideration payable to a customer in paragraphs 70–72 of IFRS 15, *Revenue from Contracts with Customers*.

- b. If the service concession arrangement results in the operating entity having only a right to charge users of the public service (that is, the intangible asset model applies as described in paragraph 17 of IFRIC 12), the operating entity has received an intangible asset (that is, the right to charge the users of the public service) in exchange for construction or upgrade services and the payments to be made to the grantor. Consequently, an entity accounts for those payments by applying International Accounting Standard 38, *Intangible Assets*.
- c. If the operating entity has both a right to charge users of the public service and a contractual right to receive cash from the grantor (that is, both the intangible asset model and the financial asset model apply as described in paragraph 18 of IFRIC 12), the operating entity considers whether those payments represent payments made for the intangible asset, or consideration payable to a customer, or both.

BC15. Accordingly, determining the customer in a service concession arrangement within the scope of IFRIC 12 depends on the nature of the consideration received by the operating entity (that is, a financial asset, an intangible asset, or both). Therefore, the consensus reached by the Task Force concluding that the grantor is the customer of the operation services in all cases may result in additional differences in application, in certain circumstances, between Topic 853 and IFRIC 12.

Transition, Effective Date, and Early Adoption

Entity Has Not Yet Adopted Topic 606

BC16. The Task Force reached a consensus that an entity that has not adopted Topic 606 before the issuance of this Update generally should adopt the amendments in this Update at the same time that it adopts Topic 606 (whether that is early or at the required date for Topic 606 adoption). Accordingly, an entity that adopts Topic 606 after the issuance of this Update should adopt the amendments in this Update at the same time that it adopts Topic 606 and should apply the amendments in this Update using the same transition method elected for the application of Topic 606 (including applying the same practical expedients, to the extent applicable), unless the entity elects to early adopt the amendments in this Update as described in paragraph BC17. An entity also should provide the same transition disclosures required by Topic 606. While the alignment of the effective date of this Update with the adoption timeline for Topic 606 may cause a delay in resolving the identified diversity in practice, one Task Force member observed that the costs a reporting entity would incur by being required to change its revenue accounting twice in a relatively short period of time was not justified. That is, an operating entity that currently determines under Topic 605 that the customer of the operation services is the third-party users would have had to adopt the amendments in this Update to align its accounting under Topic 605 with the

amendments in this Update, only to then perform another transition upon adoption of Topic 606 shortly thereafter. Accordingly, the transition provisions in this Update generally require an operating entity to perform only one transition relating to its accounting for revenues for service concession arrangements in the near future. The Task Force also considered that the alignment of the effective date of this Update with the adoption timeline for Topic 606 may result in situations in which an entity is required to adopt the amendments in this Update almost immediately (for example, if an operating entity with a fiscal year beginning on July 1, 2017, early adopts Topic 606 on July 1, 2017), but the Task Force determined that this scenario would be rare.

BC17. The Task Force also reached a consensus that earlier application of the amendments in this Update before an entity adopts Topic 606 should be permitted, including earlier application within an interim period. This is because this Update addresses the diversity in practice observed under Topic 605 about how an operating entity determines the customer of the operation services, and it addresses the added complexity and resulting diversity in practice that were created by the uncertainty about the customer determination and observed in the application of other aspects of the revenue guidance under Topic 605. An entity that early adopts this Update before adopting Topic 606 should apply the amendments in this Update using either (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (b) a retrospective approach. The transition disclosures depend on the transition method that the entity uses for the amendments in this Update. If an entity early adopts the amendments in this Update in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Task Force also decided that an entity that early adopts the amendments in this Update before it adopts Topic 606 should not be permitted to use any of the practical expedients provided in paragraph 606-10-65-1(f). This is because those practical expedients were developed specifically for entities' transition to Topic 606, which introduces broad changes related to revenue accounting as compared with Topic 605, including changes to the way in which an entity accounts for variable consideration. The election to apply the modified retrospective approach to either all contracts or only contracts that are not completed contracts at the date of initial application, as referred to in paragraphs 606-10-65-1(h) and 853-10-65-2(g), is not considered a practical expedient for this purpose.

Entity Already Has Adopted Topic 606

BC18. For an entity that has adopted Topic 606 before the issuance of this Update, the Task Force decided to require that a public business entity (and certain other entities as described in paragraph 853-10-65-2(b)) apply the amendments in this Update for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, the amendments in this

Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Task Force also reached a consensus that an entity that already has adopted Topic 606 should apply the amendments in this Update using either (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or (b) a retrospective approach, irrespective of the transition method that the entity used when initially applying Topic 606. However, the Task Force decided to require an entity that has adopted Topic 606 before the issuance of this Update to use the same practical expedients when applying the amendments in this Update that the entity used in paragraph 606-10-65-1(f) when initially applying Topic 606, to the extent applicable. The transition disclosures depend on the transition method that the entity uses for the amendments in this Update.

BC19. Earlier application of the amendments in this Update is permitted for all entities, including within an interim period. If an entity early adopts the amendments in this Update in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

Benefits and Costs

BC20. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC21. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this Update considering the alignment of the effective date and transition requirements in this Update with the effective date and transition requirements in Topic 606. Present and potential investors, creditors, donors, and other users of financial information will benefit from the amendments in this Update because the amendments will result in more consistent financial reporting of revenue arrangements by operating entities.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2018 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process.