

Audit Alert: Determining the customer of the operation services in a service concession arrangement

On March 16, the FASB's Emerging Issues Task Force (EITF) reached a final consensus on Issue 16-C, "Determining the Customer of the Operation Services in a Service Concession Arrangement." The FASB will consider ratification of the consensus at a future meeting. If ratified, the consensus will be issued as an ASU.



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In a service concession arrangement (SCA), a grantor (typically a government or public sector entity) and an operating entity enter into a contract for the operating entity to operate the grantor's infrastructure (for example, a toll road) for a specified period of time. An SCA is within the scope of ASC 853, Service Concession Arrangements, when both:

- The grantor controls or has the ability to modify or approve (1) the services that the operating entity must provide using the grantor's infrastructure, (2) to whom the operating entity must provide the services, and (3) at what price.
- The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement (ASC 853-10-15-3).

In reaching its final consensus, the Task Force reaffirmed guidance in its consensus-for-exposure that was included in the proposed ASU, Determining the Customer of the Operation Services, issued in November 2016, stating that the grantor would be the customer in all cases for SCAs within the scope of ASC 853, because the operating entity does not own or lease the infrastructure and does not control the services to be provided to the third-party users.

The Task Force tentatively decided that the effective date of the new guidance would align with the guidance in ASC 606, Revenue from Contracts with Customers, and that entities

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would be allowed to early adopt the new guidance irrespective of their decision to early adopt ASC 606.

Source: Grant Thornton, *On the Horizon*, March 23, 2017.

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