INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED16-06
12 December 2023 – Virtual

Non-priority topics

Summary	This paper summarises the key changes being made to the Guidance in Sections 12, 14, 15,16,17,18,19, 20, 27 and 33 following the discussions at the September TAG meeting. It also provides a first draft of the amendments to Section 34 *Specialised activities.*
Purpose/Objective of the paper	At the TAG meeting at the end of September 2023, drafts were provided of a number of sections that are not being treated as priority sections in this phase of INPAG. There were a number of discussion points for consideration. This paper sets out the key actions that have been taken or are proposed to be taken to address the discussion points raised. This paper also includes a first draft of Section 34 *Specialised activities*, which were not considered at the September meeting.
Other supporting items	TAGED14-05, TAGED14-09 and TAGED14-10
Prepared by	Karen Sanderson
Actions for this meeting	**<u>Provide feedback on</u>**: i. the new paragraphs drafted; ii. the actions to be completed as outlined; and iii. the draft of Section 34.

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Technical Advisory Group

Non-priority topics

1. Introduction

1.1 At the TAG meeting at the end of September 2023, drafts were provided of the following sections:

- Section 12 *Fair value*
- Section 14 *Associations*
- Section 15 *Joint arrangements*
- Section 16 *Investment properties*
- Section 17 *Property, plant and equipment*
- Section 18 *Intangibles other than goodwill*
- Section 19 *Business combinations and goodwill*
- Section 20 *Leases*
- Section 27 *Impairment*
- Section 33 *Related parties*

1.2 These sections are not being treated as priority sections and therefore subject to detailed review. There were a number of discussion points for consideration, which have either now been addressed (Annex A) or are int the process of being addressed (Annex B).

1.3 In addition there is another section for inclusion in ED3 that was not discussed in the September YAG meeting, being Section 34 *Specialised activities.* A draft of this section is now included for consideration.

2. Changes to the authoritative guidance

2.1 As a consequence of the feedback from the TAG changes are proposed to either the core text or application guidance. As these sections have not been prioritised for review, application guidance has been limited to that which is necessary to understand the application of the core text in the context of the prioritised content in INPAG. Similarly implementation guidance has not been developed for any of these sections, but has been updated as appropriate to align with other content in INPAG.

Fair value

2.2 The feedback on fair value centred on the fair value measurement of donated assets and in particular the application of service potential. This included situations where a donated asset has a specification that exceeds the requirement of an NPO. TAG members were of the view that where there are no restrictions on a donated asset it should be held at highest and best use as the NPO could dispose of it. Where there are restrictions, its fair value should be determined with reference to its service potential.

2.3 It was acknowledged that there are limitations on the measurement guidance that can be provided on the application of service potential as this is outside of the scope of the topics being prioritised for this phase of INPAG.

2.4 There was also feedback about the examples and the cross referencing of material between the authoritative text and the illustrative examples, which would help understanding of the intent of the proposals.

2.5 As a consequence of the points raised the guidance has been updated to reflect that assets that can be freely disposed of should be measured at their highest and best use, with other donated assets measured with respect to their service potential. These are set out in Annex A. Amendments to the related examples will be made as set out in Annex B.

Question 1: Do TAG members have any comments on the changes proposed?

Impairment

2.6 The main area of feedback on the topic of impairment was the level at which impairment reviews are carried out and the terminology used where impairment is carried out on a group of assets rather than individual assets. The proposal taken to the TAG was that the term 'cash-generating unit' used in the *IFRS for SMEs* Accounting Standard be replaced with 'operating unit'.

2.7 TAG members were concerned that this might be misunderstood and thought of at a whole of enterprise level, or that the term has different meanings elsewhere. As a consequence the Secretariat proposes to use the term 'operating unit' but clarify that this terms means any cash-generating or non-cash generating unit with the NPO. The text proposed is set out in Annex A. A specific matter for comment on this definition will be included in ED3.

2.8 The TAG also provided feedback on the drafting in relation to inventory. Simplifications have been made as set out in Annex A.

Question 2: What are TAG members' views on the proposed approach to 'operating unit'?

Related parties

2.9 There were a number of pieces of feedback in relation to related parties. The majority related to proposed exemptions. Firstly there was a proposal to specifically exempt disclosure of transactions made by key management personnel made on the same terms as any other party in relation to donations and the receipt of services. This was supported, but TAG members felt that some additional guidance would be useful to assist NPOs in applying the relevant paragraphs. As a consequence Secretariat will include additional guidance as either application guidance or implementation guidance as set out in Annex B.

2.10 The second discussion point was around the need to identify service potential as a separate category to be disclosed, separate to other resources. It was agreed that service potential is linked to other assets and therefore should not be a separate category on its own. As a consequence these references are proposed to be removed as set out in Annex A.

2.11 The third area of discussion was the exemption with regard to related party disclosures with government entities. This disclosure that is in the *IFRS for SMEs* accounting standard is proposed to be retained. This exemption was to relieve the burden on SMEs and for the same reasons it is proposed to be included in INPAG. No changes are proposed to be made to the text, but the rationale will be included in the Basis for Conclusions.

2.12 As a consequence of changes to the approach around the minimum mandatory disclosures proposed in Section 24 Part II *Classification of expenses* a minor amendment is proposed to paragraphs G33.6 and G33.7. This is set out in Annex A.

Sections relating to non-financial assets

2.13 There was discussion on each of the sections relating to non-financial assets about additional guidance for NPOs, with a particular focus on service potential. The Secretariat acknowledge that such guidance would be useful, but is outside the scope of the work for phase 1 of the development of INPAG. As a result, the limitations that result in applying the guidance and the reasons for this will be described in the Basis for Conclusions.

2.14 There was also a request to clarify that the requirement to fair value donated assets is not a requirement of the *IFRS for SMEs* Accounting Standard and is a requirement of INPAG. This will be made clear in the comparison table for each of the Sections.

Investment property

2.15 The main feedback on this Section was in relation to the scope of the Section. In particular there was a request to clarify that properties held for social benefit (eg social housing) are not investment properties. As a consequence, a new paragraph will be inserted into this Section as per Annex A.

Property, plant and equipment

2.16 Feedback from the TAG was that additional guidance on heritage assets including the requirement for and approach to capitalisation would be helpful, either in the section on property, plant and equipment or in the transitional guidance. For the reasons set out in paragraph 2.13 no additional guidance is proposed in Section 17 *Property, plant and equipment*. The Secretariat will provide guidance on the heritage assets in the first time adoption of INPAG.

Intangibles other than goodwill

2.17 In the draft of this section, no additional language was proposed for donated items. Feedback from the TAG is that there are situations where intangibles can be donated (for example, copyright) and therefore Section 18 should be adapted in the same way as the other sections relating to non-financial assets. This includes the introduction of service potential into this Section. A new paragraph is proposed as per Annex A.

Leases

2.18 The Section on leases was only updated for terminology changes. The TAG discussion focused on the approach to peppercorn leases and concessionary leases, where there is a lease at less than fair value. For the reasons set out in paragraph 2.13 no additional guidance is proposed in Section 20 *Leases* and this will be explained in the Basis for Conclusions.

Business combinations and goodwill

2.19 There was a substantial discussion of business combinations that centred on three main issues. The first was whether it would be possible to include any simplifications where two NPOs with positive net assets combine. Secretariat are investigating this possibility and this is an action yet to be progressed.

2.20 The second area of discussion was around the implications of consolidation. It was agreed that a specific matter for comment on the extent of combinations and the practical implications would be included in the exposure draft. The Basis for Conclusions would also explain the approach to consolidation.

2.21 The third area concerned use of the term 'business' and how this applies to NPOs. Due to the pervasive use of the term in this section and the possibility of unintended consequences it is not proposed to change the term. However, a description of a business has been clarified in the Application Guidance to make it more relevant to NPOs. The proposed change is set out in Annex A.

Question 3: Do TAG members have any comments on the approach proposed in relation to sections on non-financial assets and business combinations?

3. Basis for conclusions

3.1 During the discussions at the TAG meeting a number of items were identified for inclusion in the Basis for Conclusions. As a consequence the Secretariat are planning to include the issues in the table below within the Basis for Conclusions for the appropriate Section.

Section	Description of the key point
Fair value	Recognition of service potential as an important concept for non-profits and limitations on guidance available for its application in this phase of INPAG. Topics related to measurement will be considered in the subsequent phases of INPAG development.
Related parties	Service potential has not been included as a disclosure requirement for related parties as service potential doesn't exist without another asset or service. The exemption in relation to the disclosure of related party transactions with government entities is being retained in INPAG to reduce the burden on preparers as with the IFRS for SMEs Accounting Standard.
Investment property, Property plant and equipment, Intangibles other than goodwill	There are limitations to the guidance as measurement has not been addressed in this phase of INPAG development.
Business combinations	Combinations involving NPOs and subsequent consolidation are not specifically addressed in this phase of INPAG and the requirements reflect the generic requirements of SMEs.

3.2 The Basis for Conclusions for each of these Sections is planned to be shared in correspondence in January 2024.

Question 4: What are TAG members' views on the key issues for inclusion in the Basis for Conclusions?

4. Section 34 *Specialised activities*

4.1 Section 34 includes guidance on agriculture, mineral resources and service concession arrangements. This section has been updated as set out in Annex C.

4.2 There are no significant changes proposed for this section, other than for changes to terminology to align with other sections of INPAG.

Question 5: Do TAG members agree that no other changes other than changes to terminology are required for Section 34?

December 2023

Annex A - Amendments drafted

Original drafting	**Updated drafting**
AG12.5 Many NPO assets and liabilities will require the use of a level 3 technique; that is either the market approach, cost approach or income approach. This will be particularly the case for donated assets arising from donations in-kind. AG12.6 An NPO may use the cost to the donor deemed fair value where this is known and is relevant. Otherwise the fair value of donated items and donations in-kind, shall be determined as their 'replacement cost'. Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created at the time and place where the asset is utilised. This provides the value of an equivalent item in local use, or 'value in use'.	AG12.5 Many NPO assets and liabilities will require the use of a level 3 technique; that is either the market approach, cost approach or income approach. This will be particularly the case for donated assets. AG12.6 Where an asset can be freely disposed of, it shall be measured at its highest and best use. AG12.7 Otherwise the fair value of donated items, shall be determined as their 'replacement cost'. Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created at the time and place where the asset is utilised. This provides the value of an equivalent item in local use, or 'value in use'. An NPO may use the cost to the donor as the deemed fair value where this is known and is relevant.
Example 5 – Donation of an asset that has a specification greater than required for operations A donor provides a luxury off-road vehicle to an NPO for use in transporting staff that deliver front line services. A standard all terrain vehicle would be sufficient to meet operational needs. The cost of this vehicle to the donor could be readily obtained as there are standard price lists for second hand vehicles in the local market. However, it is the service capacity that is relevant and needs to be measured, not the value of the actual vehicle provided. The fair value of the vehicle will therefore be determined with reference to a stand all terrain vehicle as this would be sufficient to meet operational needs in the particular location concerned.	Example 5 – Donation of an asset that has a specification greater than required for operations A donor provides the use of office space in a building that it owns, which can only be used by the NPO. The building is in the centre of the town in a highly desirable location, which is not necessary for the NPO's operations. The cost of this office space can be readily obtained as there is an active market for this type of office space. As this office space cannot be disposed of or used by anyone else the NPO cannot obtain the market value of the space. As a consequence, it is the service capacity that is relevant and needs to be measured, not the market value of the office space. The fair value of the office space will therefore be determined with reference to the office space that would meet operational needs in the particular location concerned.

Impairment of Inventories **Selling price less costs to complete and sell** G27.2 An NPO shall assess at each **reporting date** whether any **inventories** are impaired. The NPO shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items—see paragraph G27.3) with its selling price less costs to complete and sell or, for inventories held for distribution at no or nominal consideration, its cost adjusted for any loss of service potential, or its replacement cost. If an item of inventory (or group of similar items) is impaired, the NPO shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell or its cost adjusted, when applicable, for any loss of service potential, or its replacement cost. That reduction is an impairment loss and it is recognised immediately in **surplus or deficit**. G27.3 If it is **impracticable** to determine the selling price less costs to complete and sell for inventories or, for inventories held for distribution at no or nominal consideration, the cost adjusted, when applicable, for any loss of service potential, or the replacement cost item by item, the NPO may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and, where relevant, marketed in the same geographical area for the purpose of assessing impairment.	**Impairment of Inventories** **Selling price less costs to complete and sell** G27.2 An NPO shall assess at each **reporting date** whether any **inventories** are impaired. The NPO shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items—see paragraph G27.3) with its selling price less costs to complete and sell. <u>For inventories held for distribution at no or nominal consideration, the cost adjusted for any loss of service potential (adjusted cost), or its replacement cost shall be used instead of its selling price less costs to complete and sell.</u> If an item of inventory (or group of similar items) is impaired, the NPO shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell, or its adjusted cost, or its replacement cost. That reduction is an impairment loss and it is recognised immediately in **surplus or deficit**. G27.3 If it is **impracticable** to determine the selling price less costs to complete and sell for <u>inventories or, adjusted cost, or the replacement cost</u> item by item, the NPO may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and, where relevant, marketed in the same geographical area for the purpose of assessing impairment.
G27.8 If it is not possible to estimate the recoverable amount of the individual asset, an NPO shall estimate the recoverable amount of the **operating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows and sometimes individual assets do not generate cash flows by themselves. An asset's operating unit is the smallest identifiable group of assets that	G27.8 If it is not possible to estimate the recoverable amount of the individual asset, an NPO shall estimate the recoverable amount of the **operating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows and sometimes individual assets do not generate cash flows by themselves. An asset's operating unit is the smallest identifiable group of assets that

includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.	includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. <u>An operating unit can be either a cash generating unit or non-cash generating unit of an NPO</u>.
G33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly, including any director (whether executive or otherwise) of that NPO. This will include any members of the NPO's governing body (paid or not) who provide oversight of NPO's activities. Compensation includes all employee benefits (as defined in Section 28 Employee Benefits) ~~including those in the form of share-based payment (see Section 26 Share-based Payment)~~. Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent ~~or by a shareholder~~), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO. G33.7 An NPO shall disclose key management personnel compensation in total. For members of governing body (paid or not) who provide oversight of NPO's activities, an NPO shall disclose the personnel compensation (where allowed by law) and any out of pocket expenses reimbursed.	G33.6 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including trustees and any director (whether executive or otherwise) of that NPO. This will include any members of the NPO's governing body (paid or not) who provide oversight of NPO's activities. Compensation includes all employee benefits (as defined in Section 28 Employee Benefits) ~~including those in the form of share-based payment (see Section 26 Share-based Payment).~~ Employee benefits include all forms of consideration paid, payable or provided by the NPO, or on behalf of the NPO (for example, by its parent ~~or by a shareholder~~), in exchange for services rendered to the NPO. It also includes such consideration paid on behalf of a parent of the NPO in respect of goods or services provided to the NPO. G33.7 An NPO shall disclose key management personnel compensation in total. For members of governing body (paid or not) who provide oversight of NPO's activities, an NPO shall disclose the personnel compensation (where allowed by law) and any out of pocket expenses reimbursed. <u>The nature and amount of these expenses shall be disclosed.</u>
G33.9 A related party transaction is a transfer of resources, services or obligations <u>or service potential</u> between a reporting NPO and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to NPOs include, but are not limited to: a) transactions between an NPO and those that have ownership rights(s); b) transactions between an NPO and another entity when both entities	G33.9 A related party transaction is a transfer of resources, services or obligations between a reporting NPO and a related party, regardless of whether a price is charged. Examples of related party transactions that are common to NPOs include, but are not limited to: a) transactions between an NPO and those that have ownership rights(s); b) transactions between an NPO and another entity when both entities are under the

<table>
<tr><td>are under the common control of a single entity or person; and c) transactions in which an entity or person that controls the reporting NPO incurs expenses directly that otherwise would have been borne by the reporting NPO.</td><td>common control of a single entity or person; and c) transactions in which an entity or person that controls the reporting NPO incurs expenses directly that otherwise would have been borne by the reporting NPO.</td></tr>
<tr><td>New paragraph – Investment property</td><td><u>G16.3 A property held by an NPO primarily for activities to deliver its missional objectives and which also generates cash inflows, for example housing to low-income families at below market rental, shall not be classified as an investment property. Instead, it should be accounted for as property, plant, and equipment in accordance with Section 17.</u></td></tr>
<tr><td>New paragraph – Intangibles other than goodwill</td><td><u>G18.15 If an intangible asset is acquired by way of a donation, for example the donation of the copyright of a book to an NPO dedicated to promoting literacy and education, the cost is measured at fair value or estimated service potential on the date the donation is received or receivable in accordance with Section 23 Part I Revenue from grants and donations.</u></td></tr>
<tr><td>AG19.1 A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:
(a) input: any economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include non-current assets, intellectual property, the ability to obtain access to necessary materials or rights and employees.
(b) process: any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes.</td><td>AG19.1 A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:
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(c) **output:** the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.	(c) **output:** the result of inputs and processes applied to those inputs that provide goods or services to <u>service beneficiaries,</u> customers, generate investment income or generate other income from ordinary activities.
New paragraph – Business combinations	<u>AG19.1A A business will exist where these criteria are met regardless of the size of the inputs, outputs. The requirements of this section will therefore apply to all businesses of all sizes including small businesses.</u>

Annex B – Amendments yet to be drafted

Section impacted	Nature of amendment
Fair value application guidance	AG12.1 will be amended to cross reference to the illustrative examples to make clear how the levels in the hierarchy are likely to apply to NPOs.
Related parties	Additional guidance to illustrate how the exemptions in G33.2 will apply
Business combinations	Possible simplification for the combination of one or more NPOs that all have positive net assets
Transitional guidance	Guidance on heritage assets associated with the first time adoption of INPAG

Annex C

Section 34 – *Specialised activities*

Scope of this section

G34.1 This section provides guidance on financial reporting by NPOs involved in three types of specialised activities—agriculture, extractive activities, and service concessions.

Agriculture

G34.2 An NPO applying this Guidance that is engaged in agricultural activity shall determine its accounting policy for each class of its biological assets, except for bearer plants that can be measured separately from the produce on them without undue cost or effort, as follows:

a) the NPO shall use the fair value model in paragraphs G34.4–G34.7 for those biological assets for which fair value is readily determinable without undue cost or effort; and
b) the NPO shall use the cost model in paragraphs G34.8–G34.10 for all other biological assets.

G34.3 This section does not apply to bearer plants that can be measured separately from the produce on them without undue cost or effort (see Section 17 *Property, lant and equipment*). However, this section applies to the produce on those bearer plants. If bearer plants cannot be measured separately from the produce on them without undue cost or effort, this section applies to the entire plant.

G34.4 The following are not bearer plants:

a) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber or trees that are cultivated both for their fruit and their lumber); and
b) annual crops (for example, maize and wheat).

Measurement – fair value model

G34.5 An NPO shall measure a biological asset on initial **recognition** and at each **reporting date** at its **fair value less costs to sell**. Changes in fair value less costs to sell shall be recognised in **surplus or deficit**.

G34.6 Agricultural produce harvested from an NPO's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such **measurement** is the cost at that date when applying Section 13 *Inventories* or another applicable section of this Guidance.

G34.7 Section 12 *Fair value measurement* provides guidance on determining fair value.

Disclosures – fair value model

G34.8 An NPO shall disclose the following with respect to its biological assets measured at fair value:

a) a description of each class of its biological assets.
b) a reconciliation of changes in the **carrying amount** of biological assets between the beginning and the end of the current period. The reconciliation shall include:
    i. the **gain** or loss arising from changes in fair value less costs to sell;
    ii. increases resulting from purchases;
    iii. decreases resulting from harvest;
    iv. increases resulting from **business combinations**;
    v. net exchange differences arising on the translation of **financial statements** into a different **presentation currency** and on the translation of a **foreign operation** into the presentation currency of the reporting entity; and
    vi. other changes.

    This reconciliation need not be presented for prior periods.

Measurement – cost model

G34.9 The NPO shall measure at cost less any accumulated **depreciation** and any accumulated **impairment** losses those biological assets whose fair value is not readily determinable without undue cost or effort.

G34.10 The NPO shall measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell at the point of harvest. Such measurement is the cost at that date when applying Section 13 or other sections of this Guidance.

Disclosures - Cost model

G34.11 An NPO shall disclose the following with respect to its biological assets measured using the cost model:

a) a description of each class of its biological assets;
b) an explanation of why fair value cannot be measured reliably without undue cost or effort;
c) the depreciation method used;
d) the useful lives or the depreciation rates used; and
e) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Exploration for and evaluation of mineral resources

G34.12 An NPO using this Guidance that is engaged in the exploration for, or evaluation of, mineral resources shall determine an accounting policy that specifies which expenditures are recognised as exploration and evaluation assets in accordance with paragraph G10.4 and apply the policy consistently. An entity is exempt from applying paragraph G10.5 to its

accounting policies for the recognition and measurement of exploration and evaluation assets.

G34.13 The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

a) acquisition of rights to explore;
b) topographical, geological, geochemical and geophysical studies;
c) exploratory drilling;
d) trenching;
e) sampling; and
f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets.

G34.14 Exploration and evaluation assets shall be measured on initial recognition at cost. After initial recognition, an entity shall apply Section 17 and Section 18 *Intangible assets other than goodwill* to the exploration and evaluation assets according to the nature of the assets acquired subject to paragraphs G34.16–G34.18. If an NPO has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section 17 and Section 21 *Provisions and contingencies*.

G34.15 Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its **recoverable amount**. An NPO shall measure, present and disclose any resulting impairment loss in accordance with Section 27 *Impairment of assets*, except as provided by paragraph G34.18.

G34.16 For the purposes of exploration and evaluation assets only, paragraph G34.17 shall be applied instead of paragraphs G27.7–G27.10 when identifying an exploration and evaluation asset that may be impaired. Paragraph G34.17 uses the term 'assets' but applies equally to separate exploration and evaluation assets or an **operating unit**.

G34.17 One or more of the following facts and circumstances indicate that an NPO should test exploration and evaluation assets for impairment (the list is not exhaustive):

a) the period for which the NPO has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed;
b) substantive expenditure on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned;
c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the NPO has decided to discontinue such activities in the specific area; or
d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The NPO shall perform an impairment test, and recognise any impairment loss, in accordance with Section 27.

G34.18 An NPO shall determine an accounting policy for allocating exploration and evaluation assets to operating units or groups of operating units for the purpose of assessing such assets for impairment.

G34.19 An NPO shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either Section 17 or Section 18 consistent with how the assets are classified.

Service concession arrangements

G34.20 A service concession arrangement is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

G34.21 There are two principal categories of service concession arrangements:

a) in one, the operator receives a **financial asset**—an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.
b) in the other, the operator receives an **intangible asset**—a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

Accounting – financial asset model

G34.22 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value. Thereafter, it shall follow Section 11 *Financial instruments* in accounting for the financial asset.

Accounting—intangible asset model

G34.23 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow Section 18 in accounting for the intangible asset.

Operating revenue

G34.24 The operator of a service concession arrangement shall recognise, measure and disclose revenue in accordance with Section 23 *Revenue* for the services it performs.