

IFRIC Interpretation 12

Service Concession Arrangements

This version includes amendments resulting from IFRSs issued up to 31 December 2008.

IFRIC 12 *Service Concession Arrangements* was developed by the International Financial Reporting Interpretations Committee and issued by the International Accounting Standards Board in November 2006.

IFRIC 12 and its accompanying documents have been amended by the following IFRSs:

- IAS 23 *Borrowing Costs* (as revised in March 2007)*
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007).*

* effective date 1 January 2009

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IFRIC Interpretation 12 *Service Concession Arrangements* (IFRIC 12) is set out in paragraphs 1–30 and Appendices A and B. IFRIC 12 is accompanied by Information Notes, Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 2 and 7–17 of the *Preface to International Financial Reporting Standards*.

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References

- *Framework for the Preparation and Presentation of Financial Statements*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*
- *IAS 11 Construction Contracts*
- *IAS 16 Property, Plant and Equipment*
- *IAS 17 Leases*
- *IAS 18 Revenue*
- *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*
- *IAS 23 Borrowing Costs*
- *IAS 32 Financial Instruments: Presentation*
- *IAS 36 Impairment of Assets*
- *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IFRIC 4 Determining whether an Arrangement contains a Lease*
- *SIC-29 Service Concession Arrangements: Disclosures**

Background

- 1 In many countries, infrastructure for public services—such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks—has traditionally been constructed, operated and maintained by the public sector and financed through public budget appropriation.
- 2 In some countries, governments have introduced contractual service arrangements to attract private sector participation in the development, financing, operation and maintenance of such infrastructure. The infrastructure may already exist, or may be constructed during the period of the service arrangement. An arrangement within the scope of this Interpretation typically involves a private sector entity (an operator) constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its

* The title of SIC-29, formerly *Disclosure—Service Concession Arrangements*, was amended by IFRIC 12.

capacity) and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes. Such an arrangement is often described as a 'build-operate-transfer', a 'rehabilitate-operate-transfer' or a 'public-to-private' service concession arrangement.

- 3 A feature of these service arrangements is the public service nature of the obligation undertaken by the operator. Public policy is for the services related to the infrastructure to be provided to the public, irrespective of the identity of the party that operates the services. The service arrangement contractually obliges the operator to provide the services to the public on behalf of the public sector entity. Other common features are:
 - (a) the party that grants the service arrangement (the grantor) is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved.
 - (b) the operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
 - (c) the contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.
 - (d) the operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.

Scope

- 4 This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements.
- 5 This Interpretation applies to public-to-private service concession arrangements if:
 - (a) the grantor controls or regulates what services the operator must provide with the infrastructure, 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 infrastructure at the end of the term of the arrangement.
- 6 Infrastructure used in a public-to-private service concession arrangement for its entire useful life (whole of life assets) is within the scope of this Interpretation if the conditions in paragraph 5(a) are met. Paragraphs AG1–AG8 provide guidance on determining whether, and to what extent, public-to-private service concession arrangements are within the scope of this Interpretation.

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- 7 This Interpretation applies to both:
- (a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and
 - (b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.
- 8 This Interpretation does not specify the accounting for infrastructure that was held and recognised as property, plant and equipment by the operator before entering the service arrangement. The derecognition requirements of IFRSs (set out in IAS 16) apply to such infrastructure.
- 9 This Interpretation does not specify the accounting by grantors.

Issues

- 10 This Interpretation sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements. Requirements for disclosing information about service concession arrangements are in SIC-29. The issues addressed in this Interpretation are:
- (a) treatment of the operator's rights over the infrastructure;
 - (b) recognition and measurement of arrangement consideration;
 - (c) construction or upgrade services;
 - (d) operation services;
 - (e) borrowing costs;
 - (f) subsequent accounting treatment of a financial asset and an intangible asset; and
 - (g) items provided to the operator by the grantor.

Consensus

Treatment of the operator's rights over the infrastructure

- 11 Infrastructure within the scope of this Interpretation shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

Recognition and measurement of arrangement consideration

- 12 Under the terms of contractual arrangements within the scope of this Interpretation, the operator acts as a service provider. The operator constructs or upgrades infrastructure (construction or upgrade services) used to provide a

public service and operates and maintains that infrastructure (operation services) for a specified period of time.

- 13 The operator shall recognise and measure revenue in accordance with IASs 11 and 18 for the services it performs. If the operator performs more than one service (ie construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. The nature of the consideration determines its subsequent accounting treatment. The subsequent accounting for consideration received as a financial asset and as an intangible asset is detailed in paragraphs 23–26 below.

Construction or upgrade services

- 14 The operator shall account for revenue and costs relating to construction or upgrade services in accordance with IAS 11.

Consideration given by the grantor to the operator

- 15 If the operator provides construction or upgrade services the consideration received or receivable by the operator shall be recognised at its fair value. The consideration may be rights to:
- (a) a financial asset, or
 - (b) an intangible asset.
- 16 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 grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.
- 17 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.
- 18 If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.
- 19 The nature of the consideration given by the grantor to the operator shall be determined by reference to the contract terms and, when it exists, relevant contract law.