

IFRIC 12

Service concession arrangements

REFERENCES

IFRIC 12 refers to the following sources:

Conceptual framework

- IAS 8 Accounting policies, changes in accounting estimates and errors
- IAS 16 Property, plant and equipment
- 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
- IFRS 1 First-time adoption of IFRS
- IFRS 7 Financial instruments: disclosure
- IFRS 9 Financial instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- SIC 29 Service Concession Arrangements: Disclosures

ISSUE

IFRIC 12 applies to public-to-private service concession agreements when:

- the grantor controls what services the operator must provide with the infrastructure under the concession, the types of beneficiaries of services and the price of services under concession; and
- the grantor controls any significant residual interest in the infrastructure at the end of the contract.

The interpretation applies to the infrastructure that the operator builds or that it acquires or to which it has access.

It does not specify how to recognize infrastructure that is held and recognized as a fixed asset by the operator prior to the service concession agreement. The derecognition criteria outlined in IAS 16 therefore apply in this case.

IFRIC Interpretation 12 sets out the general recognition and measurement principles pertaining to the obligations and rights arising from service concessions

arrangements.

POSITION ADOPTED

Treatment of the operator's rights over the infrastructure

The infrastructure must not be recognized as part of the operator's property, plant and equipment because the contractual service arrangement does not transfer to the operator a right to control the use of the public service infrastructure.

Recognition and measurement of the agreement consideration

The consideration received or to be received must be allocated by reference to the relative fair values of the services delivered, provided the amounts are separately identifiable. The nature of the consideration determines its subsequent accounting treatment, with revenue recognised and measured in accordance with IFRS 15.

Construction or upgrade services

The operator must account for revenue and expense relating to construction or upgrade services in accordance with IFRS 15.

The consideration may be rights to a financial asset or an intangible asset.

The operator recognizes a financial asset if it has an unconditional contractual right to receive cash or another financial asset from the grantor for the construction services. This will be the case if the grantor contractually guarantees the payment to the operator of determined or determinable amounts, even if the payment is contingent on the operator's ability to ensure that the infrastructure meets specified quality or efficiency requirements.

The operator recognizes an intangible asset if it receives a right to charge users of the public service.

Both types of consideration are classified as a "contract asset" during the construction or upgrade period in accordance with IFRS 15.

Operation services

The operator must account for the revenue and expense relating to operation services in accordance with IFRS 15.

Financial asset

The amount due from the grantor is accounted for in accordance with IFRS 9 if it is designated as such when initially recognized as a financial asset measured:

- ✓ amortised cost;

- ✓ fair value through Other Comprehensive Income; or
- ✓ fair value through profit or loss.

If the amount due is measured at amortised cost or fair value through Other Comprehensive Income, IFRS 9 requires that interest be calculated using the effective interest method to be recognised in profit or loss.

Intangible asset

IAS 38 applies to the recognized intangible asset.

IFRIC Interpretation 12 stipulates that changes in accounting methods are recognized in accordance with IAS 8, i.e., retrospectively.