Service concession arrangements with leased infrastructure

The Interpretations Committee received a request to clarify how an operator accounts for a service concession arrangement in which the infrastructure is leased. In this arrangement, the operator is not required to provide any construction or upgrade services with respect to the infrastructure.

The submitter described an arrangement that involves three parties: a grantor, an operator and a lessor. The operator enters into an arrangement with the grantor to operate a public service. Some or all of the infrastructure in the arrangement is leased from the lessor. The lessor and the grantor may be controlled by the same governmental body. The operator is contractually required to pay the lessor for the lease of the infrastructure. The operator has an unconditional contractual right to receive cash from the grantor to reimburse those payments. In arrangements in which the lessor and the grantor are not controlled by the same governmental body, the grantor provides the lessor with a guarantee of the lease payments to be made during the lease term, and of any residual value at the end of the lease term. The grantor also has an option to renew the lease at the end of the initial non-cancellable period of the contract.

The submitter asked the Interpretations Committee to clarify whether the arrangement (including the leased infrastructure) is within the scope of IFRIC 12 (scope issue). If the arrangement (including the leased infrastructure) is determined to be within the scope of IFRIC 12, the submitter notes that the lease of the infrastructure is not within the scope of IFRS 16 Leases (IAS 17 Leases) for the operator. Consequently, the submitter also asked the Interpretations Committee to clarify how the operator accounts for any assets and liabilities arising from the arrangement with the lessor (recognition and presentation issues).

With respect to the scope issue, the Interpretations Committee observed that:

a. assessing whether the arrangement (including the leased infrastructure) is within the scope of IFRIC 12 requires consideration of the specific facts and circumstances. In particular, the operator assesses whether the control conditions in paragraph 5 of IFRIC 12 and the condition relating to the infrastructure in paragraph 7 of IFRIC 12 apply.

b. the operator is not required to provide construction or upgrade services with respect to the infrastructure for the arrangement to be within the scope of IFRIC 12.

With respect to the recognition and presentation issues, if the arrangement (including the leased infrastructure) described in the submission is determined to be within the scope of IFRIC 12, the Interpretations Committee observed that the grantor, rather than the operator, controls the right to use the infrastructure. Accordingly, the Interpretations Committee observed that:

a. the operator assesses whether it is obliged to make payments to the lessor for the lease or whether the grantor has this obligation. This assessment requires consideration of the specific facts and circumstances. If the grantor is obliged to make payments to the lessor, then in that case the operator is collecting cash from the grantor that it remits to the lessor on the grantor’s behalf.

b. if the operator is obliged to make payments to the lessor as part of the service concession arrangement, then the operator recognises a liability for this obligation when it is committed to the service concession arrangement and the infrastructure is made available by the lessor. At the time the operator recognises the liability, it also recognises a financial asset because the operator has a contractual right to receive cash from the grantor to reimburse those payments.

c. the operator’s liability to the lessor described in b. above is a financial liability. Accordingly, the operator offsets the liability to make payments to the lessor against the corresponding receivable from the grantor only when the criteria for offsetting a financial asset and a financial liability in IAS 32 Financial Instruments: Presentation are met.
The Interpretations Committee concluded that the requirements in IFRS Standards provide an adequate basis to enable an entity to determine how to account for the arrangement.

In the light of the existing requirements in IFRS Standards, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.