

## STAFF PAPER

January 2016

## IFRS Interpretations Committee Meeting

|                    |   |
|--------------------|---|
| <b>Project</b>     | <b>IFRIC 12 <i>Service Concession Arrangements</i></b>                                      |
| <b>Paper topic</b> | Payments made by an operator to a grantor in a service concession arrangement               |
| <b>CONTACT(S)</b>  | Jawaid Dossani <a href="mailto:jdossani@ifrs.org">jdossani@ifrs.org</a> +44 (0)20 7332 2742 |

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

**Background and objective**

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to address the accounting for contractual payments that are to be made by an operator under a service concession arrangement within the scope of *IFRIC 12 Service Concession Arrangements*. Specifically, the submitter asked the Interpretations Committee to clarify in what circumstances (if any) those payments should:
  - (a) be included in the measurement of an asset and liability at the start of the concession; or
  - (b) be accounted for as executory in nature (ie be recognised as expenses as they are incurred over the term of the concession arrangement).
2. This Interpretations Committee discussed this issue over several meetings from 2011 to 2013. In its discussions, the Interpretations Committee had observed that:
  - (a) if the contractual payments give the operator a right to a good or service that is distinct from the service concession arrangement, the operator would account for that distinct good or service in accordance with the applicable Standard.
  - (b) if the contractual payments are linked to the right to use a tangible asset, the operator would assess whether the arrangement contains a lease. If the arrangement contains a lease, that portion of the arrangement would be

considered to be within the scope of the applicable accounting standard on leases.

- (c) if the contractual payments did not give the operator a right to a distinct good or service or a right of use that meets the definition of a lease, the contractual terms of the service concession arrangement would determine the accounting for the contractual payments to be made by the operator to the grantor:
- (i) if the service concession results in the operator having only a contractual right to receive cash from the grantor (ie the financial asset model in IFRIC 12 applies), then the concession payment is an adjustment to the overall revenue consideration;
  - (ii) if the service concession arrangement results in the operator having only a right to charge users of the public service (ie the intangible asset model in IFRIC 12 applies), then the concession payment represents consideration for the concession right (ie part of the cost of the intangible asset recognised); and
  - (iii) if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor, then the amount of the contractual right to receive cash from the grantor needs to be compared with the fair value of the operator's services to determine whether the concession payment represents an adjustment to the overall revenue consideration or consideration for the concession right intangible asset.

3. The Interpretations Committee noted that when the payments to be made by the operator are variable and the intangible asset model in IFRIC 12 is applicable to the arrangement, the issue is linked to the broader issue of accounting for variable payments for asset purchases. As the accounting for variable payments was being considered by the IASB as part of its projects on leases and the *Conceptual Framework*, the issue was put on hold pending completion of the redeliberations on the proposals in the Exposure Draft *Leases* (published in May 2013). Subsequently, the Interpretations Committee revisited this issue at its meetings in September and November 2015.

4. At its meeting in November 2015, the Interpretations Committee noted that it had reached a conclusion that the accounting for variable payments for asset purchases was too broad an issue for the Interpretations Committee to address and issued a tentative agenda decision for the accounting for variable payments for asset purchases (see [here](#) for a copy of the IFRIC *Update* from November 2015).
5. Consequently, the Interpretations Committee considered whether a solution could be developed to address the accounting for payments made by an operator to a grantor without the need to address the broader issue of variable payments for asset purchases. However, members of the Interpretations Committee expressed mixed views on this approach. Some members were of the view that the issue could not be addressed without addressing the broader issue of accounting for variable payments for asset purchases. Other members were of the view that service concession arrangements represent a unique type of arrangement that shares some characteristics with lease contracts. These members were of the view that the Interpretations Committee could consider developing guidance by utilising principles similar to those developed by the IASB for the accounting for variable payments in lease contracts.
6. However, on balance, the Interpretations Committee concluded that the issue was also too broad for it to address and directed the staff to prepare a tentative agenda decision for consideration at a future meeting.
7. The objective of this paper is to present to the Interpretations Committee the proposed wording for a tentative agenda decision.

### **Draft wording and staff recommendation**

8. The proposed wording for a tentative agenda decision has been included in Appendix A of this staff paper. We recommend that the Interpretations Committee should approve the proposed wording for the tentative agenda decision.

**Questions to the Interpretations Committee**

1. Does the Interpretations Committee agree with the staff's recommendation to approve the proposed wording for the tentative agenda decision?
2. Does the Interpretations Committee have any comments on the proposed wording for the tentative agenda decision?

## Appendix A

### Proposed wording for tentative agenda decision

#### **IFRIC 12 *Service Concession Arrangements*—Payments by an operator to a grantor in a service concession arrangement in the scope of IFRIC 12**

The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify the accounting for contractual payments that are to be made by an operator to a grantor under a service concession arrangement within the scope of IFRIC 12

#### *Service Concession Arrangements.*

The Interpretations Committee discussed this issue over several meetings and observed that:

- (a) if the contractual payments give the operator a right to a good or service that is distinct from the service concession arrangement, the operator would account for that distinct good or service in accordance with the applicable Standard.
- (b) if the contractual payments are linked to the right to use a tangible asset, the operator would assess whether the arrangement contains a lease. If the arrangement contains a lease, that portion of the arrangement would be considered to be within the scope of the applicable accounting standard on leases.
- (c) if the contractual payments do not give the operator a right to a distinct good or service or a right of use that meets the definition of a lease, the contractual terms of the service concession arrangement would determine the accounting for the contractual payments to be made by the operator to the grantor:
  - (i) if the service concession results in the operator having only a contractual right to receive cash from the grantor (ie the financial asset model in IFRIC 12 applies), then the concession payment is an adjustment to the overall revenue consideration;
  - (ii) if the service concession arrangement results in the operator having only a right to charge users of the public service (ie the intangible asset model in IFRIC 12 applies), then the concession payment represents consideration for the concession right (ie part of the cost of the intangible asset recognised); and

- (iii) if the operator has both a right to charge users of the public service and a contractual right to receive cash from the grantor, then the amount of the contractual right to receive cash from the grantor needs to be compared with the fair value of the operator's services to determine whether the concession payment represents an adjustment to the overall revenue consideration or consideration for the concession right intangible asset.

The Interpretations Committee noted that when the payments to be made by the operator are variable and the intangible asset model in IFRIC 12 is applicable to the arrangement, the issue is linked to the broader issue of accounting for variable payments for asset purchases.

The Interpretations Committee noted that it had reached a conclusion that the accounting for variable payments for asset purchases was too broad an issue for it to address.

Consequently, the Interpretations Committee concluded that addressing service concession arrangements that included variable payments to be made by the operator would also be too broad for it to address. Accordingly, the Interpretations Committee [decided] not to take this issue onto its agenda.