

IASB Press Releases

IFRIC publishes proposed guidance on accounting for service concession arrangements

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The International Financial Reporting Interpretations Committee (IFRIC) * has today released for public comment three draft Interpretations: D12 *Service Concession Arrangements—Determining the Accounting Model*, D13 *Service Concession Arrangements—the Financial Asset Model* and D14 *Service Concession Arrangements—the Intangible Asset Model*.

Service concession arrangements are arrangements whereby a government or other body grants contracts for the supply of public services—such as roads, energy distribution, prisons or hospitals—to private operators.

The proposed Interpretations have been developed in response to requests for guidance on how International Financial Reporting Standards (IFRSs) apply to service concession arrangements. The proposed Interpretations would not amend existing IFRSs. Instead, they would clarify how concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements.

To allow entities affected by the final Interpretations enough time to change current practices, the proposed Interpretations contain a delayed effective date. They are proposed to be effective for **annual periods beginning on or after 1 January 2006**. Early adoption would be permitted. Operators not wishing to adopt the final Interpretations early and whose existing accounting practices are not inconsistent with IFRSs will be able to continue to apply those practices at least until the Interpretations become effective.

Furthermore, the proposed Interpretations contain transitional arrangements designed to ease the introduction of the changes.

Introducing the draft Interpretations, Gilbert Gélard , Acting IFRIC Chairman and IASB member responsible for liaison with the French national standard-setter, said:

Accounting for service concessions is of great interest in many countries. The IFRIC believes that the proposed Interpretations will provide a valuable roadmap, pointing concession operators to the relevant IFRSs and helping them apply those IFRSs to service concession arrangements.

* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

The IFRIC is concerned that, without this guidance, some operators may engage in practices that are not in keeping with IFRSs. Those practices include inappropriate capitalisation of borrowing costs, combining different aspects of concession arrangements as if they were a single contract and failing to select the appropriate classification for assets, such as the infrastructure or the rights obtained under the concession arrangements. There has also been uncertainty about the accounting requirements for obligations to maintain, restore or hand back infrastructure used in such concessions.

In making these proposals, the IFRIC acknowledged that, whilst the proposed Interpretations have no authoritative status until issued in final form, operators will look to them as an indication of future requirements and need to know as soon as possible the direction in which they are likely to progress. The IFRIC therefore intends to discuss comments on the proposals at its June meeting and will strive to finalise the Interpretations as soon as possible thereafter.

Subscribers to the IASB's Comprehensive Subscription Service can view the draft Interpretations from the secure online services area of the IASB's Website (www.iasb.org). From 4 March 2005, the complete text of the draft Interpretations will be freely available from the Website.

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NOTES TO EDITORS

About D12 Service Concession Arrangements—Determining the Accounting Model

1 The draft Interpretations cover various aspects of accounting for service concession arrangements. One of the most significant aspects is the treatment of the roads, buildings or other infrastructure used to provide the concession services. The draft Interpretations address only the accounting by operators. They do not specify the accounting by grantors, ie the governments or other bodies that grant the concessions: the remit of the IASB and the IFRIC does not extend beyond business entities.

2 D12 proposes that if, as often happens, the grantor continues to control how the infrastructure is used both during and after the concession, the operator should not recognise that infrastructure as its property, plant and equipment. The operator may construct or acquire such infrastructure for the purpose of the concession. If it does so, it should account for having provided construction services to the grantor under a construction contract, and recognise as an asset the rights it receives in exchange from the grantor.

3 D12 further proposes that the classification (and hence accounting treatment) of these rights will depend on the terms of the concession arrangement:

- if the grantor is primarily responsible for paying for the concession services, the operator's rights meet the definition of a financial asset and should be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*

- if users are primarily responsible for paying for the concession services (for example if and when they use toll roads), the operator's rights meet the definition of an intangible asset and should be accounted for in accordance with IAS 38 *Intangible Assets*.

About D13 Service Concession Arrangements—the Financial Asset Model and D14 Service Concession Arrangements—the Intangible Asset Model

4 D13 and D14 provide guidance on how the operator should apply relevant IFRSs when it recognises a financial or intangible asset respectively. Both address the recognition and measurement of contract revenue and costs, service concession assets and obligations (such as obligations to repair and maintain infrastructure). The simple example accompanying each draft Interpretation highlights the different consequences of the two different models.

About the IFRIC

6 The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about nine times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

About the IASB

7 The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

8 A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards.