IFRIC 12 – Service Concession Arrangements (July 2016)

Payments made by an operator to a grantor in a service concession arrangement

The Interpretations Committee received a request to clarify how an operator accounts for payments it makes to a grantor in a service concession arrangement within the scope of IFRIC 12 Service Concession Arrangements.

The Interpretations Committee observed the following in circumstances other than those in which the operator is collecting amounts (for example, sales taxes) on behalf of, and remitting them to, the grantor:

a) if payments are for a right to a good or service that is separate from the service concession arrangement, then the operator accounts for those payments applying the applicable IFRS Standard(s);
b) if payments are for the right to use an asset that is separate from the infrastructure within the scope of IFRIC 12, then the operator assesses whether the arrangement contains a lease. If the arrangement contains a lease, the operator accounts for those payments applying IFRS 16 Leases (IAS 17 Leases);
c) if payments are not for the right to a separate good or service or a separate right-of-use that is a lease, then the operator accounts for those payments as follows:
    i. if the service concession arrangement results in the operator having only a contractual right to receive cash from the grantor (ie the financial asset model applies as described in paragraph 16 of IFRIC 12), the operator accounts for those payments as a reduction of the transaction price, applying the requirements on consideration payable to a customer in paragraphs 70-72 of IFRS 15 Revenue from Contracts with Customers;
    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 applies as described in paragraph 17 of IFRIC 12), the operator has received an intangible asset (ie the right to charge the users of the public service) in exchange for construction/upgrade services and the payments to be made to the grantor. Consequently, an entity accounts for those payments applying IAS 38 Intangible Assets; 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 (ie both the intangible asset model and the financial asset model apply as described in paragraph 18 of IFRIC 12), the operator considers whether those payments represent payments made for the intangible asset, or consideration payable to a customer, or both.

The Interpretations Committee observed that, when the intangible asset model in IFRIC 12 applies, the accounting for variable payments to be made by the operator in a service concession arrangement is linked to the broader issue of accounting for variable payments for asset purchases. However, the Interpretations Committee noted that it had determined in March 2016 that the issue of accounting for variable payments for asset purchases is too broad for the Interpretations Committee to address within the confines of existing IFRS Standards and, consequently, decided not to add the issue to its agenda. Therefore, the Interpretations Committee concluded that addressing how an operator accounts for variable payments that it makes to a grantor when the intangible asset model in IFRIC 12 applies is too broad for the Interpretations Committee to address within the confines of existing IFRS Standards.

The Interpretations Committee also concluded that the requirements in existing IFRS Standards are sufficient to address the other aspects of how an operator accounts for payments that it makes to a grantor as described above. Consequently, the Interpretations Committee decided not to add this issue to its agenda.