



NZ ACCOUNTING  
STANDARDS  
BOARD

## **New Zealand Equivalent to IFRIC Interpretation 12**

### **Service Concession Arrangements (NZ IFRIC 12)**

**Issued March 2007 and incorporates amendments to 30 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments***

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

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The following is available within New Zealand on the XRB website as additional material

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## NZ IFRIC 12

New Zealand Equivalent to IFRIC Interpretation 12 *Service Concession Arrangements* (NZ IFRIC 12) is set out in paragraphs 1–30 and Appendices A and B.

NZ IFRIC 12 is accompanied by IFRIC Information Notes, IFRIC Illustrative Examples and an IFRIC Basis for Conclusions. NZ IFRIC 12 should be read in the context of the IFRIC’s Basis for Conclusions on IFRIC 12 and the Illustrative Examples for IFRIC 12.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

### **Reduced Disclosure Regime**

Tier 2 for-profit entities must comply with all the provisions in NZ IFRIC 12.

# New Zealand Equivalent to IFRIC Interpretation 12

## Service Concession Arrangements (NZ IFRIC 12)

### References

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- NZ *Framework for the Preparation and Presentation of Financial Statements*<sup>1</sup>
- NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- NZ IFRS 7 *Financial Instruments: Disclosures*
- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 11 *Construction Contracts*
- NZ IAS 16 *Property, Plant and Equipment*
- NZ IAS 17 *Leases*
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- NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
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- NZ IAS 32 *Financial Instruments: Presentation*
- NZ IAS 36 *Impairment of Assets*
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- NZ IAS 38 *Intangible Assets*
- NZ IAS 39 *Financial Instruments: Recognition and Measurement*
- NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*
- NZ SIC-29 *Service Concession Arrangements—Disclosures*

### Background

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- 1 In many countries, infrastructure for public services—such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks—has traditionally been constructed, operated and maintained by the public sector and financed through public budget appropriation.
- 2 In some countries, governments have introduced contractual service arrangements to attract private sector participation in the development, financing, operation and maintenance of such infrastructure. The infrastructure may already exist, or may be constructed during the period of the service arrangement. An arrangement within the scope of this Interpretation typically involves a private sector entity (an operator) constructing the infrastructure used to provide the public service or upgrading it (for example, by increasing its capacity) and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement. The arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes. Such an arrangement is often described as a ‘build-operate-transfer’, a ‘rehabilitate-operate-transfer’ or a ‘public-to-private’ service concession arrangement.
- 3 A feature of these service arrangements is the public service nature of the obligation undertaken by the operator. Public policy is for the services related to the infrastructure to be provided to the public, irrespective of the identity of the party that operates the services. The service arrangement contractually obliges the operator to provide the services to the public on behalf of the public sector entity. Other common features are:
  - (a) the party that grants the service arrangement (the grantor) is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved.

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<sup>1</sup> In February 2011 the New Zealand Equivalent to the IASC *Framework for the Preparation and Presentation of Financial Statements* was replaced with the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting*.

- (b) the operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.
- (c) the contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.
- (d) the operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.

## Scope

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- NZ 3.1 This Interpretation applies to Tier 1 and Tier 2 for-profit entities.
- 4 This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements.
- 5 This Interpretation applies to public-to-private service concession arrangements if:
- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
  - (b) the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement.
- 6 Infrastructure used in a public-to-private service concession arrangement for its entire useful life (whole of life assets) is within the scope of this Interpretation if the conditions in paragraph 5(a) are met. Paragraphs AG1-AG8 provide guidance on determining whether, and to what extent, public-to-private service concession arrangements are within the scope of this Interpretation.
- 7 This Interpretation applies to both:
- (a) infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and
  - (b) existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.
- 8 This Interpretation does not specify the accounting for infrastructure that was held and recognised as property, plant and equipment by the operator before entering the service arrangement. The derecognition requirements of NZ IFRS (set out in NZ IAS 16) apply to such infrastructure.
- 9 This Interpretation does not specify the accounting by grantors.

## Issues

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- 10 This Interpretation sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements. Requirements for disclosing information about service concession arrangements are in NZ SIC-29. The issues addressed in this Interpretation are:
- (a) treatment of the operator's rights over the infrastructure;
  - (b) recognition and measurement of arrangement consideration;
  - (c) construction or upgrade services;
  - (d) operation services;
  - (e) borrowing costs;
  - (f) subsequent accounting treatment of a financial asset and an intangible asset; and
  - (g) items provided to the operator by the grantor.

## Consensus

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### Treatment of the operator's rights over the infrastructure

- 11 Infrastructure within the scope of this Interpretation shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator has access to operate the infrastructure to provide the public service on behalf of the grantor in accordance with the terms specified in the contract.

### Recognition and measurement of arrangement consideration

- 12 Under the terms of contractual arrangements within the scope of this Interpretation, the operator acts as a service provider. The operator constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.
- 13 The operator shall recognise and measure revenue in accordance with NZ IASs 11 and 18 for the services it performs. If the operator performs more than one service (ie construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable. The nature of the consideration determines its subsequent accounting treatment. The subsequent accounting for consideration received as a financial asset and as an intangible asset is detailed in paragraphs 23–26 below.

### Construction or upgrade services

- 14 The operator shall account for revenue and costs relating to construction or upgrade services in accordance with NZ IAS 11.

### Consideration given by the grantor to the operator

- 15 If the operator provides construction or upgrade services the consideration received or receivable by the operator shall be recognised at its fair value. The consideration may be rights to:
- (a) a financial asset, or
  - (b) an intangible asset.
- 16 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The operator has an unconditional right to receive cash if the grantor contractually guarantees to pay the operator (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.
- 17 The operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.
- 18 If the operator is paid for the construction services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.
- 19 The nature of the consideration given by the grantor to the operator shall be determined by reference to the contract terms and, when it exists, relevant contract law.

### Operation services

- 20 The operator shall account for revenue and costs relating to operation services in accordance with NZ IAS 18.

### **Contractual obligations to restore the infrastructure to a specified level of serviceability**

- 21 The operator may have contractual obligations it must fulfil as a condition of its licence (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element (see paragraph 14), shall be recognised and measured in accordance with NZ IAS 37, ie at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period.

### **Borrowing costs incurred by the operator**

- 22 In accordance with NZ IAS 23, borrowing costs attributable to the arrangement shall be recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service). In this case borrowing costs attributable to the arrangement shall be capitalised during the construction phase of the arrangement in accordance with that Standard.

### **Financial asset**

- 23 NZ IASs 32 and 39 and NZ IFRS 7 apply to the financial asset recognised under paragraphs 16 and 18.
- 24 The amount due from or at the direction of the grantor is accounted for in accordance with NZ IAS 39 as:
- (a) a loan or receivable;
  - (b) an available-for-sale financial asset; or
  - (c) if so designated upon initial recognition, a financial asset at fair value through profit or loss, if the conditions for that classification are met.
- 25 If the amount due from the grantor is accounted for either as a loan or receivable or as an available-for-sale financial asset, NZ IAS 39 requires interest calculated using the effective interest method to be recognised in profit or loss.

### **Intangible asset**

- 26 NZ IAS 38 applies to the intangible asset recognised in accordance with paragraphs 17 and 18. Paragraphs 45–47 of NZ IAS 38 provide guidance on measuring intangible assets acquired in exchange for a non-monetary asset or assets or a combination of monetary and non-monetary assets.

### **Items provided to the operator by the grantor**

- 27 In accordance with paragraph 11, infrastructure items to which the operator is given access by the grantor for the purposes of the service arrangement are not recognised as property, plant and equipment of the operator. The grantor may also provide other items to the operator that the operator can keep or deal with as it wishes. If such assets form part of the consideration payable by the grantor for the services, they are not government grants as defined in NZ IAS 20. They are recognised as assets of the operator, measured at fair value on initial recognition. The operator shall recognise a liability in respect of unfulfilled obligations it has assumed in exchange for the assets.

### **Effective date**

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- 28 An entity shall apply NZ IFRIC 12 in its annual financial statements for periods beginning on or after 1 January 2008. Earlier application is permitted only when an entity complies, or has complied, with NZ IFRS 1 *First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards* in its annual financial statements for a period beginning on or after 1 January 2005. If an entity applies this NZ IFRIC in its financial statements for a period before 1 January 2008, it shall disclose that fact.
- NZ 28.1 *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It



made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

## Transition

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- 29 Subject to paragraph 30, changes in accounting policies are accounted for in accordance with NZ IAS 8, ie retrospectively.
- 30 If, for any particular service arrangement, it is impracticable for an operator to apply this Interpretation retrospectively at the start of the earliest period presented, it shall:
- (a) recognise financial assets and intangible assets that existed at the start of the earliest period presented;
  - (b) use the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and
  - (c) test financial and intangible assets recognised at that date for impairment, unless this is not practicable, in which case the amounts shall be tested for impairment as at the start of the current period.

## IFRIC Information notes

*[The IFRIC Information Notes accompany but do not form part of NZ IFRIC 12.]*

## IFRIC Illustrative examples

*[These examples accompany but do not form part of NZ IFRIC 12.]*

## IFRIC Basis for Conclusions

BC1–BC77 [Paragraphs BC1–BC77 do not form part of NZ IFRIC 12.]

## Appendix A

### Application Guidance

*This appendix is an integral part of the Interpretation.*

#### Scope (paragraph 5)

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- AG1 Paragraph 5 of this Interpretation specifies that infrastructure is within the scope of the Interpretation when the following conditions apply:
- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
  - (b) the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement.
- AG2 The control or regulation referred to in condition (a) could be by contract or otherwise (such as through a regulator), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. In applying this condition, the grantor and any related parties shall be considered together. If the grantor is a public sector entity, the public sector as a whole, together with any regulators acting in the public interest, shall be regarded as related to the grantor for the purposes of this Interpretation.
- AG3 For the purpose of condition (a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, contract or regulator, for example by a capping mechanism. However, the condition shall be applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, shall be ignored. Conversely, if for example, a contract purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.
- AG4 For the purpose of condition (b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the infrastructure and give the grantor a continuing right of use throughout the period of the arrangement. The residual interest in the infrastructure is the estimated current value of the infrastructure as if it were already of the age and in the condition expected at the end of the period of the arrangement.
- AG5 Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 5(a) and any significant residual interest in the infrastructure, the operator is only managing the infrastructure on the grantor's behalf—even though, in many cases, it may have wide managerial discretion.
- AG6 Conditions (a) and (b) together identify when the infrastructure, including any replacements required (see paragraph 21), is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an item of infrastructure during the period of the arrangement (eg the top layer of a road or the roof of a building), the item of infrastructure shall be considered as a whole. Thus condition (b) is met for the whole of the infrastructure, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.
- AG7 Sometimes the use of infrastructure is partly regulated in the manner described in paragraph 5(a) and partly unregulated. However, these arrangements take a variety of forms:
- (a) any infrastructure that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in NZ IAS 36 shall be analysed separately if it is used wholly for unregulated purposes. For example, this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients.
  - (b) when purely ancillary activities (such as a hospital shop) are unregulated, the control tests shall be applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 5, the existence of ancillary activities does not detract from the grantor's control of the infrastructure.
- AG8 The operator may have a right to use the separable infrastructure described in paragraph AG7(a), or the facilities used to provide ancillary unregulated services described in paragraph AG7(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it shall be accounted for in accordance with NZ IAS 17.

## **Appendix B**

### **Amendments to NZ IFRS 1 and to other Interpretations**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2008. If an entity applies this Interpretation for an earlier period, these amendments shall be applied for that earlier period.*

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*The amendments contained in this appendix when this Interpretation was issued in 2007 have been incorporated into the relevant pronouncements.*

**HISTORY OF AMENDMENTS****Table of Pronouncements – NZ IFRIC 12 Service Concession Arrangements**

This table lists the pronouncements establishing and substantially amending NZ IFRIC 12. The table is based on amendments approved as at 30 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments*.

<b>Pronouncements</b>	<b>Date approved</b>	<b>Early operative date</b>	<b>Effective date (annual reporting periods... on or after ...)</b>
NZ IFRIC 12 <i>Service Concession Arrangements</i>	Mar 2007	Early application permitted	1 Jan 2008
NZ IAS 23 <i>Borrowing Costs</i> (revised 2007)	Jul 2007	Early application permitted	1 Jan 2009
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> <sup>1</sup>	Nov 2012	Early application permitted	1 Dec 2012

<b>Table of Amended Paragraphs in NZ IFRIC 12</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 22	Amended	NZ IAS 23 [Jul 2007]
Paragraph NZ 28.1	Added	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]

<sup>1</sup> This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.