

Also refer: NZ SIC 12 *Service Concession Arrangements - Disclosure*

## BACKGROUND AND ISSUE

NZ IFRIC 12 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: *Disclosure - Service Concession Arrangements*. The issues addressed in NZ IFRIC 12 are:

- Treatment of the operator’s rights over the infrastructure;
- Recognition and measurement of arrangement consideration;
- Construction or upgrade services;
- Operation services;
- Borrowing costs;
- Subsequent accounting treatment of a financial asset and an intangible asset; and
- Items provided to the operator by the grantor.

## SCOPE

- NZ IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements.
- NZ IFRIC 12 applies to public-to-private service concession arrangements if:
  - 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
  - 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.
- NZ IFRIC 12 applies to both:
  - Infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and
  - Existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.
- NZ IFRIC 12 does not specify the accounting for infrastructure recognised as PPE by the operator before it entered the service concession agreement.
- NZ IFRIC 12 does not specify the accounting by grantors.

### TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters are required to comply with NZ IFRIC 12 in full.

## CONSENSUS

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

Infrastructure within the scope of NZ IFRIC 12 is not 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

Under the terms of contractual arrangements within the scope of NZ IFRIC 12, the operator acts as a service provider. The operator recognises and measures revenue in accordance with NZ IFRS 15 *Revenue From Contracts With Customers* for the services it performs.

### Construction or upgrade services

The operator accounts for construction or upgrade services in accordance with NZ IFRS 15. If the operator provides construction or upgrade services the consideration received or receivable by the operator is recognised at its fair value. The consideration may be rights to:

- A financial asset (as described below) if it has an unconditional right to receive cash or another financial asset. This when the grantor contractually guarantees to pay the operator a specified amounts or the shortfall between amounts received from users and a specified amount
- An intangible asset (IAS 38.45-47 provide guidance) if it receives a right (a licence) to charge user for a public service.

### Financial asset

The amount due from or at the direction of the grantor is accounted for in accordance with IFRS 9 Financial Instruments and measured at:

- Amortised cost; or
- Fair value through OCI; or
- Fair value through profit or loss.

### Operation services

The operator accounts for operation services in accordance with NZ IFRS 15.

### Borrowing costs incurred by the operator

In accordance with NZ IAS 23 *Borrowing Costs*, borrowing costs attributable to the arrangement are recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset. In this case borrowing costs attributable to the arrangement are capitalised during the construction phase of the arrangement in accordance with IAS 23.

### Intangible asset

NZ IAS 38 *Intangible Assets* applies to any intangible assets recognised.

### Items provided to the operator by the grantor

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.