International Accounting Standards Board®

Press Release

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IFRIC issues Interpretation on service concession arrangements

The International Financial Reporting Interpretations Committee (IFRIC)* has today issued an Interpretation—IFRIC 12 *Service Concession Arrangements.* Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services—such as roads, airports, prisons and energy and water supply and distribution facilities—to private sector operators. Control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. IFRIC 12 addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

IFRIC 12 does not address accounting for the government side of service concession arrangements. IFRSs are not designed to apply to not-for-profit activities in the private sector or the public sector. However, the International Public Sector Accounting Standards Board (IPSASB—a board operating under the International Federation of Accountants) has started its own project on service concession arrangements, which will give serious consideration to accounting by grantors. The principles applied in IFRIC 12 will be considered as part of the project.

Introducing IFRIC 12, Robert Garnett, IASB member and Chairman of the IFRIC, said:

> Long-term arrangements with the private sector are becoming an increasingly common means used by governments to discharge their public responsibilities. The complexity of such arrangements poses challenges for the consequent accounting

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

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treatment, and a wide range of parties pressed the IASB to issue guidance on the subject.

In developing its guidance the IFRIC drew on the experience of operators involved in a variety of service concessions across the world. In recognition of the size of the project, the IASB extended the normal due process for a draft Interpretation by holding a public consultation to satisfy itself that application of the Interpretation would result in a fair presentation of the financial position and financial performance of concession operators. The strong, positive response to that consultation satisfied the IASB that such was the case.

The primary means of publishing Interpretations is by electronic format through the IASB's subscriber Website. Subscribers are able to access today's publication through the '*e*IFRS Login' to online services or by going to the link: http://eifrs.iasb.org. Those wishing to subscribe should go to the IASCF shop: http://shop.iasb.org.uk/cmt/0001.asp or contact:

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NOTES TO EDITORS

About IFRIC 12

IFRIC 12 draws a distinction between two types of service concession arrangement. In one, the operator receives a **financial asset**, ie an unconditional contractual right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset. In the other, the operator receives an **intangible asset**, ie no more than a right to charge for use of the public sector asset that it constructs or upgrades. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. IFRIC 12 allows for the possibility that both types of arrangement may exist within a single contract: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

About the IFRIC

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 six 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

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.

About the IPSASB

The IPSASB, operating under the auspices of the International Federation of Accountants, focuses on the accounting and financial reporting needs of national, regional and local governments, related governmental agencies, and the constituencies they serve through the development of high quality accounting standards for use by public sector entities around the world. Enhancing the quality and transparency of public sector financial reporting contributes to strengthening public confidence in public sector financial management. A primary goal of the IPSASB is to achieve convergence in financial reporting between different governments, with the private sector, and between financial reporting and economic statistics.