
**INTERPRETATION OF
FINANCIAL
REPORTING STANDARD**

INT FRS 112

Service Concession Arrangements

This Interpretation is applicable for annual reporting period beginning on
1 January 2023.

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INT FRS 112

Interpretation of Financial Reporting Standard 112 *Service Concession Arrangements* (INT FRS 112) is set out in paragraphs 1–30 and Appendices A and B. INT FRS 112 is accompanied by information notes and illustrative examples. The scope and authority of Interpretations are set out in the *Preface to Financial Reporting Standards*.

Interpretation of Financial Reporting Standard 112

Service Concession Arrangements

References

- *Framework for the Preparation and Presentation of Financial Statements*¹
- FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- FRS 16 *Property, Plant and Equipment*
- FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- FRS 23 *Borrowing Costs*
- FRS 32 *Financial Instruments: Presentation*
- FRS 36 *Impairment of Assets*
- FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- FRS 38 *Intangible Assets*
- FRS 101 *First-time Adoption of Financial Reporting Standards*
- FRS 107 *Financial Instruments: Disclosures*
- FRS 109 *Financial Instruments*
- FRS 115 *Revenue from Contracts with Customers*
- FRS 116 *Leases*
- INT FRS 29 *Service Concession Arrangements: Disclosures*²

Background

- 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.

¹ The reference is to the *Framework for the Preparation and Presentation of Financial Statements*, in effect when the Interpretation was developed.

² The title of INT FRS 29, formerly *Disclosure—Service Concession Arrangements*, was amended by INT FRS 112.

- 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.
 - (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

- 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 FRSs (set out in FRS 16) apply to such infrastructure.
- 9 This Interpretation does not specify the accounting by grantors.

Issues

- 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 INT FRS 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

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 FRS 115 for the services it performs. 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 construction or upgrade services in accordance with FRS 115.

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 in accordance with FRS 115. 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 in accordance with FRS 115.
- 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. The nature of the consideration determines the subsequent accounting as described in paragraphs 23–26. However, both types of consideration are classified as a contract asset during the construction or upgrade period in accordance with FRS 115.

Operation services

- 20 The operator shall account for operation services in accordance with FRS 115.

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 FRS 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 FRS 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 FRS 32, FRS 107 and FRS 109 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 FRS 109 as measured at:
- (a) amortised cost;
 - (b) fair value through other comprehensive income; or

(c) fair value through profit or loss.

- 25 If the amount due from the grantor is measured at amortised cost or fair value through other comprehensive income, FRS 109 requires interest calculated using the effective interest method to be recognised in profit or loss.

Intangible asset

- 26 FRS 38 applies to the intangible asset recognised in accordance with paragraphs 17 and 18. Paragraphs 45–47 of FRS 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 FRS 20. Instead, they are accounted for as part of the transaction price as defined in FRS 115.

Effective date

- 28 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 January 2008, it shall disclose that fact.
- 28A [Not used]
– 28C
- 28D FRS 115 *Revenue from Contracts with Customers*, issued in November 2014, amended the 'References' section and paragraphs 13–15, 18–20 and 27. An entity shall apply those amendments when it applies FRS 115.
- 28E FRS 109, as issued in December 2014, amended paragraphs 23–25. An entity shall apply those amendments when it applies FRS 109.
- 28F FRS 116, issued in June 2016, amended paragraph AG8. An entity shall apply those amendments when it applies FRS 116.

Transition

- 29 Subject to paragraph 30, changes in accounting policies are accounted for in accordance with FRS 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.

Appendix A

Application guidance

This appendix is an integral part of the Interpretation.

Scope (paragraph 5)

- 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 FRS 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 FRS 116.

Appendix B

Amendments to FRS 101 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 text of FRS 101, INT FRS 104 and INT FRS 29 as issued on or after 22 February 2007. In June 2009 a revised version of FRS 101 was issued.