



Introduction

- ◆ **IFRIC 12 issued 30 November 2006**
- ◆ **Response to**
 - Diversity in practice
 - Calls for guidance
- ◆ **IFRIC 12 focuses on**
 - Build-Operate-Transfer type arrangements
 - Rehabilitate-Operate-Transfer type arrangements

Example

◆ Consider

- 30 year build-operate-transfer road scheme
- Operator incurs construction costs building the road in years 1-5
- Operator receives cash from grantor / users as the road is used in years 6-30

◆ Key framing question

- What kind of asset should the operator recognise?
- Applying a “fixed asset” model (“traditional accounting”) means that a project, which is probably profitable, incurs high losses in the early stages and increasing profitability as times goes by.



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Scope - criteria

◆ An arrangement is within scope of IFRIC 12 if:

- The grantor controls what services are provided using the infrastructure, to whom and at what price

AND

- The grantor controls any significant residual interest in the infrastructure at the end of the term, or the infrastructure is used for all of its useful life



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Operator's rights over the infrastructure

- ◆ Operator **does not** recognise concession infrastructure as its property, plant and equipment (PPE)
 - Operator does not control the infrastructure
 - That is, there is no “Fixed Asset Model” under IFRIC 12

Consideration for construction

- ◆ The operator recognises compensation for construction / upgrade services as

Financial Asset

to the extent that it has an **unconditional right to receive cash irrespective of usage of the infrastructure**

AND / OR

Intangible Asset

to the extent it receives a right to charge users

Consideration for construction - examples

◆ What asset should the operator recognise in these cases?

1. Grantor pays operator a fixed amount that does not depend on usage of infrastructure **(FA)**
2. Users pay operator for use of infrastructure **(IA)**
3. Grantor pays operator according to use of the infrastructure ("shadow tolls") **(IA)**
4. Users pay operator for use of infrastructure and grantor pays shortfall between actual revenue and predetermined level ("shortfall guarantee") **(FA or Both FA & IA)**

Construction / upgrade services

- ◆ Recognise revenue as services performed
- ◆ Allocate total consideration to multiple services based on their relative fair values
 - In practice, amount allocated to construction services may be determined by reference to cost plus a reasonable profit margin
- ◆ Revenue for construction phase is recognised irrespective of the of the type of asset recognised



Operation revenue

- ◆ If the operator recognises an **intangible asset**, then charges for use of the infrastructure are recognised in revenue as earned
- ◆ If the operator recognises a **financial asset**, then payments received are allocated between pay down of the financial asset and compensation for operation services



Subsequent accounting - intangible assets

- ◆ **Generally measured under the cost model**
 - No active market
- ◆ **Amortise over expected useful life**
 - Use an amortisation method that is consistent with how benefits are consumed (Usually, “straight line method”)
 - Debate over amortisation based on usage
 - Interest methods of amortisation not permitted

Financial Results – Intangible Asset

- Due to the fact that most of the BOT contracts are finance by other parties, generally in these projects, the results are:

Balance Sheet: Recording of **Intangible Asset** against Loans, shareholder's loans and equity.

P&L:

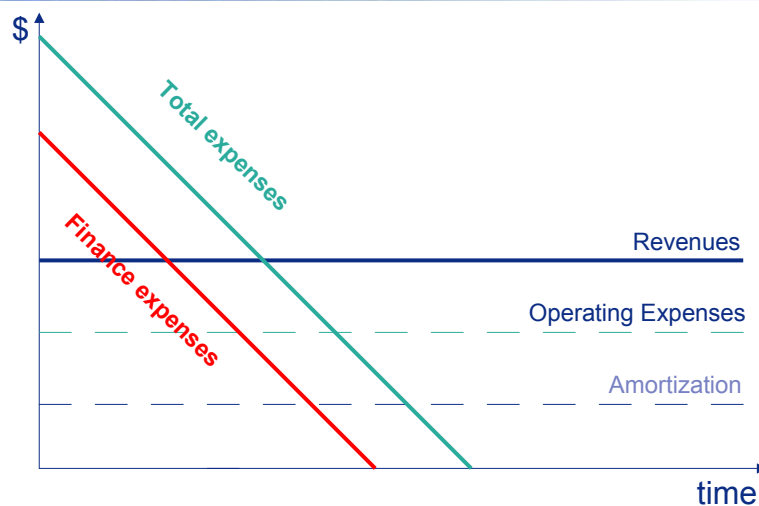
Revenue: → usually - steady

Expenses:

- Operating expenses → steady
- Amortization → steady
- Financial expenses → decreasing

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Revenues Vs Expenses – Intangible Asset



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Subsequent accounting - financial assets

- ◆ As a general principle, IFRIC 12 require the operator to allocate the total consideration to the various services provided “by reference to the relative fair values of the services delivered”.
 - For example, single periodic payment by the Grantor (“availability payment”).
 - In practice, the operator might estimate the relative fair value of the services cost plus a reasonable profit margin
- ◆ Any upgrade element is accounted for as a revenue-generating activity (e.g. resurface the road).

Financial Results – Financial Asset

Balance Sheet: Recording of **Financial Asset** against Loans, shareholder's loans and equity.

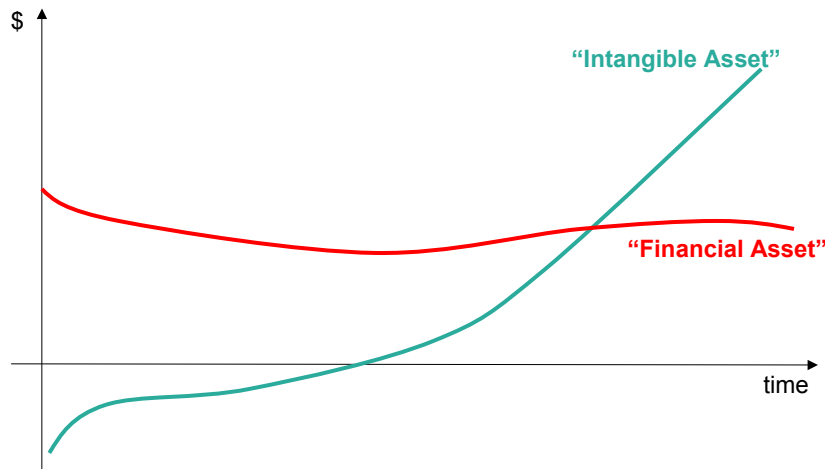
P&L:

Revenue: Recording operating revenue plus interest income

Expenses:

■ Operating expenses	→	steady
■ Financial expenses	→	decreasing

Comparison Between Models



Hybrid Model – Financial and Intangible Asset

- ◆ 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.
- ◆ **Example:**
 - The fair value of the construction services is 1,050.
 - The terms of the arrangement allow the operator to collect tolls from drivers using the road.
 - In addition, the grantor guarantees the operator a minimum amount of 700.

Effective date and transition

- ◆ **Effective for annual periods beginning on or after 1 January 2008**
- ◆ **Early adoption permitted**
- ◆ **Full retrospective application is required unless impracticable**
- ◆ **Transition relief if retrospective application is impracticable**
 - Reclassify previously recognised assets as financial and/or intangible assets, without remeasurement
 - Test financial and intangible assets for impairment



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How KPMG may assist?

- ◆ **KPMG's member firms are linked together through the Global Infrastructure and Projects Group. Our teams strive to deliver high-quality, independent and objective financial advice on PPPs, reinforced by our longstanding technical experience and relationships with key players within governments, banks and capital markets.**
- ◆ **Our professionals have assisted in many major PPPs in Israel, such as:**
 - **Highway 6 – The Cross-Israel Highway**
 - **Ashkelon Desalination Plant**
 - **Highway 431 (Danya Cebus)**
 - **Light Train of Jerusalem**
 - **Light Train of Tel-Aviv**



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