



SPANISH ACCOUNTING AND AUDITING INSTITUTE (ICAC)
COMMENTS ON IFRIC 12 *SERVICE CONCESSION ARRANGEMENTS*

The approval of IFRIC 12 *Service Concession Arrangements*, tries to solve the problem derived from the absence of an accounting international pronouncement applicable to service concession arrangements. The IASB decided to issue an Interpretation instead of a Standard, as the process needed for its approval is shorter. The truth is that the process has taken by far, much more time than expected, and as we have stated several times it would be more advisable to issue a Standard on service concession arrangements.

The following questions are our major concerns regarding IFRIC 12 *Service Concession Arrangements*:

1. The Interpretation does not give the true and fair view of the company assets, financial position and profit or loss, which is one of the requirements established in article 3 of the Regulation 1606/2002 in order to adopt international accounting standards and interpretations. IFRIC 12 establishes two models i.e. the financial asset model and the intangible asset model, and none of them fulfils the above principle. In this sense one of the main characteristics of big infrastructure service concession arrangements is that they are financed largely by debt, giving rise to high finance costs in the early years. In particular under the intangible asset model, the concession arrangement would show large losses in the early years and a very high profit in the last years. These losses do not reflect the true and fair view of service concession arrangements as they are supported by contracts that normally include clauses that reduce the risk borne by the operator and imply a right to the economic and financial balance of the concession, making the business profitable as a whole.



2. Moreover the dividing line between the two of them, is based on a formal criterion i.e. right to receive cash, rather than substance and the economic reality of the service concession arrangement i.e. level of risk.

The two models imply that two service concession arrangements with a single economic reality are subject to very different accounting treatments with very different impact on financial statements, in particular recognition of revenues and expenses is very different depending on the model. We believe that having two models with such a different impact on financial statements, for a single economic reality, is also against the true and fair view of the company assets, financial position and profit or loss as well as comparability.

3. Stakeholders representing the Spanish service concession industry and also ICAC, have expressed many times in the past years their concerns, through, comment letters to the Draft Interpretation, the working group on service concession arrangements created by EFRAG and meeting several times with EFRAG members. EFRAG draft comment letter does not give an argument in relation to why all EFRAG members have concluded that they do not share the concerns expressed.

4. Finally, based on the above we do not support the endorsement of IFRIC 12 *Service concession arrangements*, as it has been approved by IASB.

We would support the endorsement of IFRIC 12 if the Interpretation is modified in a way that it allows to reflect the true and fair view of the service concession reality, when certain circumstances are fulfilled. In this sense, based on the recognition criteria included in IAS 18 *Revenues*, we believe that it would be possible to introduce a paragraph on IFRIC 12 that allows the application of such criteria during the operational phase of the contract under the intangible asset model, in the cases



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where the Service concession arrangements fulfil all the conditions required in IAS 18, in particular the recognition of revenues applying the percentage of completion method.

Madrid, 28 February 2007