



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	29 June 2011
<b>From:</b>	<b>Clark Anstis</b>	<b>Agenda Item:</b>	18.1
<b>Subject:</b>	<b>Service Concession Arrangements: Grantor (IPSASB)</b>	<b>File:</b>	

## Action

To review the latest decisions of the International Public Sector Accounting Standards Board (IPSASB) in respect of a draft Standard on grantor accounting for service concession arrangements, and to consider the suitability of an IPSASB Standard for Australia.

## Attachments

- 18.2 Review of IPSASB decisions; and
- 18.3 AASB submission (July 2010) on IPSASB Exposure Draft ED 43 *Service Concession Arrangements: Grantor* (February 2010).

## Overview

The purpose of this agenda item is to provide the Board with a review of IPSASB decisions that are expected to be reflected in any final IPSASB Standard (International Public Sector Accounting Standard, or IPSAS) addressing grantor accounting for service concession arrangements.

Staff conducted an analysis of the IPSASB's decisions against its Exposure Draft ED 43 and the AASB's submission to the IPSASB on that ED. The analyses were conducted in order to identify and bring to the Board's attention any significant issues that may affect a decision to adopt a final IPSAS in Australia in whole or in part.

## Background

The IPSASB issued Exposure Draft ED 43 in February 2010 and the AASB subsequently issued Exposure Draft ED 194 *Request for Comment on IPSASB Exposure Draft 'Service Concession Arrangements: Grantor'* in April 2010. The AASB received submissions from four constituents (ACAG, HoTARAC, the Joint Accounting Bodies, and PwC) and these submissions were considered when the Board prepared its submission to the IPSASB in response to ED 43. The submissions received on AASB ED 194 are available from the AASB website.

The IPSASB has now made decisions in respect of all of the issues raised through the exposure draft process. The staff issues paper considered at the June 2011 meeting provided proposed paragraph wording and amendments intended to be included in a final IPSAS. The paragraphs

concerned only the issues covered at this meeting, and so the IPSASB has not seen a complete draft IPSAS at any stage in its post-ED discussions.

The IPSASB will consider a complete draft IPSAS at its next meeting, in September, for approval. However, the IPSASB will also consider whether to re-expose the proposed Standard in whole or in part, instead of approving the issue of a final Standard. Consequently, the discussion of IPSASB decisions in this agenda paper is subject to the final wording approved by the IPSASB in a final Standard.

The AASB's request for comments in AASB ED 194 stated, among other things, that the AASB has not made any decision concerning whether it will issue a Standard based on the proposals in the ED or on any final Standard issued by the IPSASB following the completion of its due process.

## **Issues arising from IPSASB Decisions**

Details of issues identified are addressed in the attached review agenda paper, item 18.2. Staff have identified below any significant issues that the Board should consider in deciding whether the Standard should be issued unamended in Australia. This will depend, of course, on the final wording adopted by the IPSASB in its Standard.

### Definitions and terminology

The definitions of the two principal terms, 'service concession arrangement' and 'service concession asset' appear to be circular. However, a small change to the first definition should resolve the issue.

The scope of references to regulation and regulators remains unclear. As the operator and grantor are likely to assess the scope of regulation relative to a service concession arrangement from different perspectives, it could result in service concession assets not being recognised by either entity as both could conclude that they do not control the assets in terms of the control criteria. Staff consider that further amendments are warranted.

### Recognition of revenue under grant of rights model

References to performance obligations have now been replaced by revenue recognition requirements. These generally mean revenue recognition over the term of a service concession arrangement, in accordance with the "economic substance" of the arrangement, although the pattern of recognition may vary. Unearned revenue is to be recognised as a liability.

Staff consider that the IPSASB has gone as far as it can within the constraints of a developing a Standard that would be accepted in practice.

Do Board members consider that any changes should be made to the draft IPSASB Standard for any of these issues?
---

## **Other Issues – Distinguishing Leases**

The Board has requested comments from the staff on the distinction between service concession arrangements and leases.

The IASB in its project on leases is aiming to clarify the distinction between leases and service contracts. The criteria for distinguishing a lease from a service in the Leases ED were from the

existing guidance in IFRIC 4 *Determining whether an Arrangement contains a Lease*. The distinction between a lease and a service has been less critical in current practice since many of the leases identified by IFRIC 4 are operating leases and the accounting for operating leases is similar to that of services.

However, comments on the proposals in the ED, and subsequent targeted outreach conducted by the IASB staff, suggested that the IFRIC 4 guidance was not sufficient to distinguish between lease and service contracts. Accordingly, the IASB has reached the following tentative decisions to distinguish between leases and service contracts, as described in *IASB Update* (April 2011):

In the *Leases* exposure draft, the boards defined a lease as a contract in which the right to use a specified asset (the underlying asset) is conveyed, for a period of time, in exchange for consideration. The boards tentatively decided the following in relation to applying that definition...:

- a. An entity would determine whether a contract contains a lease on the basis of the substance of the contract, by assessing whether:
  - i. the fulfilment of the contract depends on the use of a specified asset; and
  - ii. the contract conveys the right to control the use of a specified asset for a period of time.
- b. A contract would convey that right to control the use if the customer has the ability to direct, and receive the benefit from, the use of a specified asset throughout the lease term. Guidance on separating the use of a specified asset from other services should be aligned with the boards' tentative decisions in March 2011 relating to the separation of lease and non-lease components.
- c. A 'specified asset' refers to an asset that is explicitly or implicitly identifiable.
- d. A physically distinct portion of a larger asset of which a customer has exclusive use is a specified asset. A capacity portion of a larger asset that is not physically distinct (eg a capacity portion of a pipeline) is not a specified asset.

In addition, at the March 2011 meeting, the IASB tentatively decided that arrangements within the scope of IFRIC 12 are not within the scope of the revised leases Standard, and that a scope exclusion should be added to the leases Standard so that this is unambiguous.

However, such a scope exclusion strictly should not be necessary, if service concession arrangements and leases are truly different things.

Staff consider that they are different types of arrangements. The substance of a lease is that the lessee controls the use of a specified asset for a period of time (paragraph a(ii) above). However, under an SCA, the operator (essentially in the position of the "lessee" party) does not control the use of the service concession asset, but merely has the right of access to use the asset in accordance with the directions of the grantor (the "lessor" party). The grantor's control of how the asset is to be used by the operator is the defining feature of SCAs within the scope of the (draft) service concession arrangements Standard.

The present Interpretation 4 includes paragraph 4(b), which explicitly excludes service concession arrangements within the scope of Interpretation 12 from the scope of Interpretation 4. Although unnecessary, such an exclusion creates certainty and avoids the need to consider how they interact.

Do Board members consider that a Standard on service concession arrangements should specifically exclude leases or state that they are not leases?