



Australian Government  
Australian Accounting Standards Board

# Memorandum

<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	10 July 2014
<b>From:</b>	<b>Christina Ng</b>	<b>Agenda Item:</b>	8.1 (M139)
<b>Subject:</b>	<b>Service Concession Arrangements: Grantor's Perspective</b>	<b>File:</b>	

## Action for this meeting

Consider whether to apply, by analogy, the licensing application guidance in IFRS 15 *Revenue from Contracts with Customers* to account for a government granting an operator in a service concession arrangement a licence for the 'right to charge users' in exchange for a service concession asset and related public services.

## Overview of agenda papers for this meeting

AASB staff have prepared the following papers.

### *Agenda Paper 8.1 – Memorandum: Service Concession Arrangements: Grantor's Perspective*

This paper provides an overview of the AASB project and issues identified by the Board in July 2012. This paper also indicates the project's next steps.

### *Agenda Paper 8.2 - Information paper: Public Private Partnerships and Service Concession Arrangements [for information only]*

This paper provides background on Public Private Partnerships (PPP), in particular the paper provides background on:

- (a) An overview of PPPs;
- (b) Types of PPPs;
- (c) PPP arrangements in Australia; and
- (d) Service concession arrangements as a form of PPP in Australia, including the key rights and obligations of a grantor in a service concession arrangement that involves a licence for the 'right to charge users'.

## ***Agenda Paper 8.3 - Issues paper: Revenue recognition from licenses for the ‘right to charge users’***

This paper discusses issues relating to grantor (the public sector entity) recognition of revenue from licences for the ‘right to charge users’. In particular, the paper considers the suitability of applying, by analogy, IFRS 15’s licensing guidance to a service concession arrangement in which a government grants an operator a licence for the ‘right to charge users’ in exchange for a service concession asset and related public services.

## ***Agenda Paper 8.4 - Notes from targeted outreach [to be tabled]***

This paper summarises the feedback received from targeted outreach undertaken by AASB staff. In particular, this paper outlines the background to service concession arrangements in specific Australian jurisdictions and respondents’ views on the suitability of applying, by analogy, IFRS 15’s licensing guidance on licences to a service concession arrangement.

## **Overview of the project**

1. A service concession arrangement (also known as a Build-Own-Transfer or Build-Own-Operate-Transfer arrangement) generally involves an operator (the private sector entity) constructing a public infrastructure asset (service concession asset) and providing public services, such as operating and maintaining the infrastructure on behalf of the grantor (public sector entity), for an agreed period. In exchange for the asset and services, the grantor (the public sector entity) pays or grants a licence for the ‘right to charge users’ to the operator. Accordingly, the operator usually finances the construction of the public infrastructure. Agenda paper 8.2 provides more in-depth information about such arrangements in the light of other forms of PPP arrangements.
2. Existing Australian accounting standards do not address service concession arrangements from a grantor’s perspective. Consequently, differing views have been formed about how a public sector grantor should account for service concession arrangements, and some preparers and auditors have expressed concern about the variability in financial reporting practices. These concerns include the potential for over/understatement of assets, liabilities, revenue and expenses in public sector financial statements.
3. After considering the significance of the financial reporting issues arising from service concession arrangements, and in the light of the developments of other international accounting standards, the AASB established the project on Service Concession Arrangements: Grantor’s Perspective in 2011.

### Existing requirements and interpretation

4. In November 2006, the IFRS Interpretations Committee issued Interpretation 12 *Service Concession Arrangements* (which was incorporated into AASB Interpretation 12) that specifies the accounting requirements for operators (the private sector entities) of service concession arrangements and Interpretation 129 *Service Concession Arrangements: Disclosures* (which was incorporated into AASB Interpretation 129) that prescribes the disclosure requirements for service concession arrangements.
5. In October 2011, the International Public Sector Accounting Standards Board (IPSASB) issued IPSAS 32 *Service Concession Arrangements: Grantor*, specifying the accounting requirements for grantors (the public sector entities) of service concession arrangements.

IPSAS 32 was developed to mirror Interpretation 12 in most aspects, including the criteria for determining whether the grantor controls the asset used in a service concession arrangement. IPSAS 32 is also consistent with Interpretation 129 *Service Concession Arrangements: Disclosures*.

## Overview of key issues

6. At the July 2012 AASB meeting, staff presented an agenda paper<sup>1</sup> that considered the suitability of applying the requirements in IPSAS 32 to Australian grantors.
7. The issues raised at the July 2012 AASB meeting were:
  - (a) whether IPSAS 32 is clear that the grantor controls the asset used in a service concession arrangement if a third party regulator is involved (Issue 1);
  - (b) whether the grantor should initially recognise a liability (IPSAS 32 requirement) or revenue when it receives the service concession asset in exchange for granting the operator a licence for the 'right to charge users' of the service concession asset (Issue 2); and
  - (c) how the liability or revenue should initially be measured (Issue 3).

At its July 2012 meeting, the Board considered that the requirements in IPSAS 32 may be appropriate for application in Australia, although it is likely that some modifications would need to be made. The Board tentatively agreed for staff to analyse Issues 1, 2 and 3 above.

## Background to Issue 1

8. The Board deliberated Issue 1 at its September 2012 meeting<sup>2</sup>.
9. IPSAS 32.5 specifies the arrangements within the scope of IPSAS 32 involve the operator providing public services related to the service concession asset on behalf of the grantor. IPSAS 32.6 specifies that arrangements outside the scope of IPSAS 32 are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (for example, outsourcing, service contracts or privatisation).
10. IPSAS 32.9 specifies that the grantor shall recognise an asset provided by the operator or an upgrade to an existing asset of the grantor as a service concession asset if:
  - (a) the grantor controls or regulates what services the operator must provide with the asset, 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 asset at the end of the term of the arrangement.

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1 Agenda paper 8.2 of the July 2012 AASB meeting  
([http://www.aasb.gov.au/admin/file/content102/c3/2012\\_July\\_AP\\_8.2\\_Discussion\\_paper\\_Service\\_Concession\\_Grantor.pdf](http://www.aasb.gov.au/admin/file/content102/c3/2012_July_AP_8.2_Discussion_paper_Service_Concession_Grantor.pdf))

2 Agenda paper 13.2 of the September 2012 AASB meeting  
([http://www.aasb.gov.au/admin/file/content102/c3/M126\\_13.2\\_Issues\\_Paper\\_Service\\_Concession\\_Arrangements\\_Control\\_by\\_Grantor\\_Sept\\_2012.pdf](http://www.aasb.gov.au/admin/file/content102/c3/M126_13.2_Issues_Paper_Service_Concession_Arrangements_Control_by_Grantor_Sept_2012.pdf))

11. The Board tentatively decided:
  - (a) not to reconsider the scope of the service concession arrangements identified in IPSAS 32.5-6; and
  - (b) that the underlying control model and IPSAS 32.9 criteria for determining whether a grantor has control of the service concession asset are appropriate, but decided that there is a need for additional guidance on whether a grantor controls a service concession asset in circumstances in which a third-party regulator is involved.
12. The Board directed staff to develop additional guidance for the Board's forthcoming Exposure Draft. Staff have been working on the draft wording that will be included in a pre-ballot draft ED for consideration by the Board at a later date.

## Background to Issue 2

13. IPSAS 32.14 states, where the grantor recognises a service concession asset (that is, the asset used to provide public services in a service concession arrangement, and that asset is controlled by the grantor), the grantor shall recognise a liability.
14. IPSAS 32.24 further explains, where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator a licence for the 'right to charge users', the grantor shall account for the liability recognised as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator. IPSAS 32.25 states, the grantor shall recognise revenue and reduce the liability recognised according to the economic substance of the service concession arrangement.
15. IPSAS 32.AG47 rationalises the initial recognition of a liability as follows: "When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset, the operator is granted the right to earn revenue over the period of the service concession arrangement. Likewise, the grantor earns the benefit associated with the asset received in the service concession arrangement in exchange for the right granted to the operator over the period of the arrangement. Accordingly, the revenue is not recognised immediately. Instead, a liability is recognised for any portion of the revenue that is not yet earned".
16. The Board noted at its July 2012 meeting that the IASB/FASB's Revenue project<sup>3</sup> proposed that an entity granting a distinct licence to a customer would recognise revenue at the point in time when the license is granted, as "those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights" [paragraph B34 of ED/2011/6].
17. The Board noted that the potential outcome of the IASB/FASB project would be inconsistent with the requirements of IPSAS 32.24. Accordingly, the AASB directed staff to consider the implications and suitability of applying the application guidance on licences being developed in the IASB/ FASB Revenue project to service concession arrangements.

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3 The joint IASB and FASB Revenue project was completed in May 2014. The IASB and the FASB were deliberating its Exposure Draft ED/2011/6 *Revenue from Contracts with Customers* at the time of the commencement of the AASB Service Concession Arrangements: A Grantor's Perspective project.

18. Following the July 2012 AASB meeting, staff monitored the progress of the IASB/FASB Revenue project and reached out to targeted constituents on the suitability of the tentative licensing guidance that was being developed to service concession arrangements. However, because further redeliberations on the IASB's and the FASB's tentative licences decisions were anticipated, the Board decided that further analysis and targeted outreach on this topic should be conducted only once the near-final or final wording of the licences application guidance was available.
19. Consequently, following the issuance of IFRS 15 *Revenue from Contracts with Customers* on 28 May 2014, staff recommenced their analysis and targeted outreach on the suitability of applying IFRS 15's application guidance on licences to service concession arrangements. The outcomes from that analysis and targeted outreach are presented in Agenda papers 8.3 and 8.4 respectively.

## Background to Issue 3

20. Under IPSAS 32 the grantor is required to initially recognise a liability measured at the same amount as the service concession asset, which would usually be fair value. The liability is characterised in IPSAS 32.24 as 'the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator'. Subsequently, revenue is recognised and the liability reduced according to the economic substance of the arrangement.
21. The staff agenda paper (mentioned in paragraph 6 above) consider that the more appropriate measure of the liability (and revenue) might be the fair value of what the grantor has given up.
22. Because Issue 3 is highly dependent on the outcome of Issue 2, staff have not analysed Issue 3 on whether the measurement requirements in IPSAS 32 are consistent with the measurement requirements in IFRS 15. Staff consider it will be more useful for the Board to discuss the issue of measurement, at a future meeting, once the Board has formed its views on Issue 2.

## **Next steps**

23. Staff will provide an Issues paper on Issue 3, and any further issues identified at the July 2014 meeting, for the Board's consideration at a future meeting.
24. The AASB Work Plan currently indicates publishing an Exposure Draft by Q4 2014.