



To:	AASB members	Date:	26 August 2014
From:	Christina Ng & Glenn Brady	Agenda Item:	15.1
Subject:	Service Concession Arrangements: Grantor's Perspective	File:	

Action for this meeting

Consider:

- (a) whether service concession arrangements, from the grantor's perspective, could be within the scope of IFRS 15 *Revenue from Contracts with Customers*; and
- (b) the implications and suitability of applying IFRS 15, either directly or by analogy, to service concession arrangements in which the grantor promises to transfer to the operator an intangible asset (representing a 'right to charge users') in exchange for the construction of a service concession asset and the provision of related future services.

List of agenda papers

Agenda paper 15.2 – Issues paper: Assessing whether service concession arrangements are within the scope of IFRS 15 from the grantor's perspective

Agenda paper 15.3 – Issues paper: Application of IFRS 15 on the Right to Charge Users of a Service Concession Asset

Background of the project

- 1 AASB Interpretation 12 *Service Concession Arrangements* specifies the accounting for service concession arrangements from the operator's perspective. The purpose of the AASB's project is to develop requirements for accounting for service concession arrangements by grantors. Following the IPSASB issuing IPSAS 32 *Service Concession Arrangements: Grantor* in October 2011, the AASB has been considering the suitability of applying the IPSAS 32 in Australia, possibly with some modifications being made. However, consistent with the AASB's policy of transaction neutrality and its *Process for Modifying IFRSs for PBE/NFP*, the AASB is also considering the extent to which the recently-issued IFRS 15 should be applied to service concession arrangements from the grantor's perspective.

Overview of key issues

- 2 The [July 2012 Agenda paper 8.2](#) considered the suitability of, and identified three key issues with, applying the requirements in IPSAS 32 to Australian grantors. At its July 2012 meeting,

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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 the three issues identified in the July 2012 Agenda paper 8.2.

Background to Issue 1

- 3 Issue 1 relates to whether IPSAS 32 is clear that the grantor controls the service concession asset if a third party regulator is involved.
- 4 The Board discussed Issue 1 at its September 2012 meeting (the [September 2012 Agenda paper 13.2](#) provides more background on the issue) and 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, although additional guidance is needed on whether a grantor controls a service concession asset in circumstances in which a third-party regulator is involved.

Background to Issue 2

- 5 Issue 2 relates to whether the grantor should initially recognise a liability (which IPSAS 32 requires) or revenue when it receives a service concession asset in exchange for granting the operator a 'right to charge users' of the service concession asset.
- 6 The Board most recently discussed Issue 2 at its July 2014 meeting (the [July 2014 Agenda paper 8.1](#) provides more background on the issue) and will continue discussions on Issue 2 at its September 2014 meeting.
- 7 At its July 2014 meeting, the Board considered [Agenda paper 8.3](#) that outlined the implications and suitability of applying, by analogy, the licences application guidance in IFRS 15 to service concession arrangements that involve a grantor providing a 'right to charge users' to an operator in exchange for a service concession asset and related future services.
- 8 The Board did not make any decisions at that meeting. Instead, the Board directed staff to undertake further analysis, in particular, to consider:
 - (a) whether a service concession arrangement from the grantor's perspective could be within the scope of IFRS 15, and in particular, whether the grantor or operator of a service concession arrangement is the customer of the contract (this issue is discussed in Agenda paper 15.2 of this meeting); and
 - (b) the implications of applying the requirements in IFRS 15, either directly or by analogy, to service concession arrangements, including considering whether the asset promised to the operator should be accounted for as some other form of good or service, other than a licence (this issue is discussed in Agenda paper 15.3 of this meeting).

Background to Issue 3

- 9 Issue 3 relates to how the liability (IPSAS 32 requirement) or revenue should initially be measured. 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 [July](#)

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[2012 Agenda paper 8.2](#) considers that the more appropriate measure of the liability (and revenue) might be the fair value of what the grantor has given up.

- 10 Agenda paper 15.3 of this meeting discusses the application of IFRS 15, including measurement aspects, to service concession arrangements. Staff have not analysed the application and relevance of the measurement requirements in IPSAS 32 in the Australian environment. Depending on the Board's decisions on the application of IFRS 15 to service concession arrangements from the grantor's perspective, this analysis may or may not be relevant to the Board's remaining deliberations on this project.

Next steps

- 11 Staff will continue to address Issues 2 and 3 (if necessary), based on direction from the Board at the September 2014 meeting. Further discussion is planned at a future Board meeting.
- 12 The AASB Work Plan currently indicates publishing an Exposure Draft by Q4 2014 or Q1 2015.