

Service Concession Arrangements: Grantor Accounting

Objective

To provide the board with a background on the discussion and associated decisions that have been made on the Service Concession Arrangements (Grantor) project

Project contact

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Project news

Date	News
5 September 2014	September 2014 Action Alert
18 July 2014	July 2014 Action Alert
22 February 2013	February 2013 Action Alert
September 2012	September 2012 Minutes
July 2012	July 2012 Minutes
October 2011	October 2011 Minutes
September 2011	September 2011 Minutes
July 2011	July 2011 Minutes
25 June 2010	June 2010 Minutes

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

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September 2014	<p>The Board considered the implications of applying the main revenue model in IFRS 15, either directly or by analogy, to account for a grantor's rights and obligations in a service concession arrangement.</p> <p>The Board tentatively decided that, from a grantor's perspective, a service concession arrangement in which the grantor promises to transfer an intangible asset to the operator would not be a contract with a customer within the scope of IFRS 15. The Board considered that the intangible asset that the grantor promises to transfer to the operator in exchange for the operator's services is in the nature of financing the construction of the service concession asset and, as such, would not be an output of the government's ordinary activities.</p> <p>In light of its tentative conclusion that, from a grantor's perspective, a service concession arrangement would not be a contract with a customer, the Board directed the staff to analyse alternatives other than IFRS 15 for accounting for a grantor's rights and obligations. The Board noted that some aspects of IFRS 15 may not be particularly suitable for application to service concession arrangements, but other aspects could be suitable for application by analogy to a grantor's rights and obligations. In developing other alternatives, the Board directed the staff to consider aspects from other pronouncements, including IPSAS 32 <i>Service Concession Arrangements: Grantor</i>.</p> <p><u>15.1</u> Memorandum from Christina Ng dated 26 August 2014 re: Service Concession Arrangements: Grantor's Perspective</p> <p><u>15.2</u> Issues paper: Scope of IFRS 15 in the context of Service Concession Arrangements</p> <p><u>15.3</u> Issues paper: Application of IFRS 15 in the context of Service Concession Arrangements</p>
July 2014	<p>The Board considered a staff issues paper that outlines the implications and suitability of applying, by analogy, the licence application guidance in IFRS 15 to service concession arrangements that involve a grantor providing a licence to charge users to an operator in exchange for a service concession asset and related future services.</p> <p>The Board did not make any decisions at this meeting on the suitability of applying IFRS 15's licence guidance to service concession arrangements. Instead, the Board directed staff to undertake further analysis, in particular, to consider:</p> <ul style="list-style-type: none"> (a) whether a service concession arrangement from the grantor's perspective could be within the scope of IFRS 15; 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 a licence or as some other form of good or service. <p><u>8.1</u> Memorandum from Christina Ng dated 10 July 2014 re Service concession arrangements: Grantor's perspective</p> <p><u>8.2</u> Information paper re Public Private Partnerships and Service Concession Arrangements</p> <p><u>8.3</u> Issues paper re Revenue recognition from licences in the context of service concession arrangements</p>

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	<p>8.4 Notes on targeted outreach re service concession arrangements</p> <p>8.5 PowerPoint presentation on IFRS 15 overview of licences guidance</p>
February 2013	<p>The Board received a progress report on its project considering the modifications that might be made to IPSAS 32 <i>Service Concession Arrangements: Grantor</i> to make it suitable for adoption in Australia. In particular, the Board noted the progress made by staff in addressing the question of whether a grantor should initially recognise a liability or revenue when it receives a service concession asset from an operator in exchange for a right (that is, a licence) to charge users of the asset. In addition, the Board:</p> <ul style="list-style-type: none"> (a) noted staff had conducted preliminary targeted outreach to ascertain views from Australian constituents on grantor accounting for service concession arrangements in light of the IASB's and the FASB's November 2012 tentative decisions in relation to licences (as part of their joint project on revenue recognition); and (b) directed staff to conduct further targeted outreach with Australian constituents based on the near-final wording of the application guidance on licences to be included in the forthcoming IFRS on revenue. <p>11.1 Memorandum from Christina Ng dated 5 February 2013 re Service Concession Arrangements: Grantor's Perspective</p>
September 2012	<p>The Board had before it:</p> <ul style="list-style-type: none"> (a) a memorandum from Christina Ng and Frank Traczewski dated 21 August 2012 (Agenda Paper 13.1); and (b) a staff issues paper relating to the impact of third-party regulation on the assessment of control of a service concession asset by a grantor (Agenda Paper 13.2). <p>Consistent with its earlier decision to develop an ED based on IPSAS 32 <i>Service Concession Arrangements: Grantor</i>, the Board continued its consideration of how IPSAS 32 should be modified to suit the Australian environment. In particular, the Board considered the need for additional guidance on whether a grantor controls a service concession asset in circumstances in which a third-party regulator is involved. The Board noted that, depending on the terms of an arrangement, there could be different levels of regulation. Furthermore, a binding arrangement that includes the role of a regulator in regulating the services the operator must provide with the asset, to whom the operator must provide them, or at what price is not the only deciding factor as to whether the grantor has control of the service concession asset.</p> <p>Accordingly, the Board decided to include guidance in the ED emphasising that the fundamental principle is 'control', and that regulation of a service concession asset is only one of the factors to consider in determining whether the grantor controls the asset in particular circumstances. Consistent with the Board's thinking, the ED to be developed should avoid implying that an asset is controlled because it is regulated. Furthermore, because the NFP Implementation Guidance being developed for AASB 10 <i>Consolidated Financial Statements</i> refers to regulation in a different context to the issues pertinent to service concession arrangements, care needs to be taken in adapting that NFP guidance in</p>

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this project.

The Board plans to consider, at a future meeting, a further issues paper on whether the granting of a right to an operator to charge users of a service concession asset gives rise to the initial recognition of a liability (as required by IPSAS 32) or revenue (as proposed in IASB ED/2011/6 *Revenue from Contracts with Customers*) of the grantor, having regard to the IASB's redeliberations on the proposals in IASB ED/2011/6. The paper will also address measurement issues.

July 2012

The Board had before it:

- (a) a memorandum from Frank Traczewski and Christina Ng dated 10 July 2012 (Agenda Paper 8.1);
- (b) a discussion paper on IPSAS 32 *Service Concession Arrangements: Grantor* (Agenda Paper 8.2); and
- (c) IPSAS 32 (Agenda Paper 8.3).

The Board considered a preliminary staff issues paper addressing matters relevant to determining the suitability of IPSAS 32 in an Australian context, in particular:

- (a) whether IPSAS 32 is clear in relation to the question of whether a grantor controls a service concession asset when the asset is regulated by a third party;
- (b) whether the grantor should recognise revenue immediately or over the term of the arrangement when it receives the service concession asset in exchange for granting the operator a right to charge users of the asset or another revenue-generating asset; and
- (c) how the revenue (or liability) should initially be measured.

Although the Board considers it is likely that modifications would need to be made to IPSAS 32, the Board decided that IPSAS 32 provides an appropriate basis for developing an Australian pronouncement, and accordingly, it is not necessary for the Board to reconsider the scope of IPSAS 32 or the underlying control model. For example, a grantor may not necessarily control an asset if it regulates the price of a service concession asset only, and does not regulate what service the asset should provide and to whom. The Board directed staff to explore further the issues staff had identified in Agenda Paper 8.2 and to particularly consider the implications of the Board's ongoing projects on:

- (a) Control in the NFP Sector (for example, as it relates to control and regulation). Conclusions about whether a grantor controls a service concession asset should be aligned with the outcomes of the Control in the NFP Sector project. In relation to the implications of price being determined by a third party regulator, the Board noted that it might still be regarded as the grantor controlling the price because the contract would typically require the operator to be bound by the regulator and therefore the grantor effectively controls the price through the contract; and
- (b) Revenue from Contracts with Customers (for example, as it relates to revenue from licenses). In relation to licenses, the Board noted the IASB decisions in its Revenue from Contracts with Customers project and also noted the view that not all licenses should necessarily be treated the same. The Board asked staff to discuss this matter with IASB staff.

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The Board plans to consider a further issues paper at its next meeting. Some further field work may be undertaken to consider how the accounting would apply to different types of assets pertinent to service concession arrangements. These include assets used to provide the service, whether pre-existing, created by the grantor (for example, 4G license) or constructed by the operator, and the right given to the operator to charge users of the asset.

October 2011

The Board had before it:

- (a) a memorandum from Clark Anstis dated 11 October 2011 (Agenda Paper 4.1);
- (b) a report on the IPSASB meeting, September 2011 (Agenda Paper 4.2); and
- (c) an issues paper re IPSAS 32 Service Concession Arrangements: Grantor (September 2011) (Agenda Paper 4.3).

The Board received an update on the September 2011 meeting of the IPSASB and discussed a range of issues.

The Board noted that the IPSASB commenced its consideration of the submissions received on various Conceptual Framework proposal documents and that the IPSASB discussed presentation and disclosure (phase 4 of the Conceptual Framework project), with a revised draft Consultation Paper to be considered at its next meeting for approval.

At its meeting, the IPSASB also approved an ED on reporting on the long-term sustainability of a public sector entity's finances and a Consultation Paper on reporting service performance information. Other topics discussed by the IPSASB included entity combinations, updating the consolidation and joint arrangements Standards, and financial statement discussion and analysis. The Board noted that it intended to develop submissions to the IPSASB on the ED and the Consultation Paper.

The Board also noted that the IPSASB had approved a Standard on accounting for service concession arrangements by grantors, which is expected to be finalised and published in the near future. The Board confirmed that once the IPSASB finalises its Standard, the Board will seek to develop an Australian ED based on that Standard. The ED may include proposed requirements that differ from the IPSASB Standard. The Board decided that its sub-committee on service concession arrangements should undertake the initial work with staff in developing the ED. Mr Williams agreed to join the sub-committee. The continuing members of the sub-committee are Glenn Appleyard, Ian McPhee, Brett Rix and Kevin Stevenson.

September 2011

The Board had before it:

- (a) a memorandum from Clark Anstis dated 31 August 2011 (Agenda Paper 16.1);
- (b) a staff issues paper (Agenda Paper 16.2); and
- (c) extracts from the draft IPSAS 32 *Service Concession Arrangements: Grantor* (September 2011) (Agenda Paper 16.3).

The Board reviewed the draft Standard on grantor accounting for service concession arrangements that is to be considered for approval by the IPSASB at its meeting later in September. The Board expressed concerns over the following aspects:

- (a) the treatment of regulation that is the responsibility of third-party regulators in relation to whether the grantor controls or regulates the services that the operator

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must provide under a service concession arrangement, the recipients and the pricing of the services. Members noted that a third-party regulator could be from a different jurisdiction to the grantor, which may affect the assessment of whether the grantor should recognise service concession assets provided by the operator; and

- (b) the initial measurement of the grantor's liability under a service concession arrangement at the fair value of the service concession assets, rather than the fair value of what the grantor has given up – when the grantor grants a licence to the operator to charge users of the service concession assets, the licence covers both the availability of the assets to the operator over the term of the arrangement and the services to be provided by the operator, so that the grantor's assets may include both the underlying service concession assets and a prepaid service component. The Board considered that the draft Standard should address the creation of licences by the grantor in connection with service concession arrangements.

The Board noted that the IPSASB may decide to re-expose the draft Standard or parts of it, instead of approving it for issue. If the IPSASB decides to re-expose, the Board anticipates publishing the exposure draft in Australia for comment. If the IPSASB instead approves its Standard for issue, the Board will consider at a future meeting whether to issue an exposure draft that includes proposed requirements that are modified from the IPSASB's requirements. For example, the proposals might include modified revenue recognition requirements consistent with the outcome of the IASB project on revenue from contracts with customers.

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July 2011

The Board had before it:

- (a) a memorandum from Clark Anstis dated 29 June 2011 (Agenda Paper 18.1);
- (b) a review of relevant IPSASB decisions in June 2011 (Agenda Paper 18.2); and
- (c) the AASB's submission (July 2010) on IPSASB Exposure Draft ED 43 *Service Concession Arrangements: Grantor* (February 2010) (Agenda Paper 18.3).

The Board discussed recent decisions of the IPSASB at its June 2011 meeting concerning grantor accounting for service concession arrangements. In particular, the Board discussed, but made no decisions about, the following aspects:

- (a) the scope of regulation that should be considered by a grantor in assessing whether it controls service concession assets;
- (b) the recognition by a grantor of a service concession asset as it is being constructed by the operator when the grantor has little ability to avoid accepting the assets constructed under the specifications of the service concession arrangement;
- (c) the pattern of recognition of revenue by a grantor when it obtains control of service concession assets constructed by the operator and compensates the operator by granting a right to charge third-party users of the assets; and
- (d) retrospective application of an IPSASB Standard by grantors, including those that have not previously recognised service concession assets.

Board members noted that the IPSASB will consider finalising its Standard at its September 2011 meeting. The IPSASB may, however, decide to re-expose the proposed Standard or parts of it. Members agreed that the Board should comment to the IPSASB on the next draft of the proposed Standard when it is available.

The Board also discussed the process that it might follow, once the IPSASB has issued its Standard, to develop an Australian Accounting Standard on grantor accounting for service concession arrangements. For example, an exposure process in Australia might be based on the IPSASB Standard. The proposals might include modified revenue recognition requirements consistent with the outcome of the IASB project on Revenue from Contracts with Customers.

June 2010

The Board had before it:

- (a) a memorandum from Clark Anstis and Siva Sivanantham dated 2 June 2010 (Agenda Paper 16.1);
- (b) an issues paper – Issues for submission to IPSASB? (Agenda Paper 16.2);
- (c) Exposure Draft ED 194 *Request for Comment on IPSASB Exposure Draft "Service Concession Arrangements: Grantor"* (Agenda Paper 16.3); and
- (d) submissions on ED 194 (Agenda Paper 16.4).

The Board considered constituents' comments on ED 194 and discussed the main points to be included in its submission to the IPSASB. The Board decided that its submission should:

- (a) support the scope of the proposed Standard, with reference to both the description in the ED of service concession arrangements (rather than a definition) and the same grantor control criteria as in IFRIC Interpretation 12 *Service Concession*

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| (b) | note that, although Government Business Enterprises (GBEs) could be grantors, the Board did not support extending the scope of the proposed Standard to include GBEs, given the IPSASB's general exclusion of GBEs from the scope of its Standards; |
| (c) | suggest that BOOT (build-own-operate-transfer) arrangements might be identified in the proposed Standard or its Basis for Conclusions as a type of BOT (build-operate-transfer) arrangement and thus covered by the requirements; |
| (d) | support the IPSASB's reference to "any significant residual interest" in paragraph 10(b) of the ED and the coverage of whole-of-life service concession arrangements; |
| (e) | express the view that the grantor should recognise a service concession asset constructed by the operator as construction takes place, irrespective of whether the construction risk is borne by the grantor or the operator; |
| (f) | accept the IPSASB proceeding with the performance obligations approach, but with clarification of the following aspects: <ul style="list-style-type: none"> (i) why a performance obligation should be recognised only to the extent that the grantor's payment obligation (financial liability) falls short of the fair value of the service concession assets; (ii) whether the grantor has a performance obligation in respect of its existing assets that are reclassified as service concession assets, and if not, why not; and (iii) whether the performance obligation approach is proposed essentially as a means of deferring revenue recognition by grantor; |
| (g) | note that it would be useful to require separate (rather than combined) disclosure of service concession assets recognised during the period and of existing assets of the grantor reclassified as service concession assets during the period – at present, these amounts could be combined in the one disclosure required by paragraph 27(c)(iii) of the ED, even though paragraph 12 appears to suggest that separate disclosure is intended; and |
| (h) | propose retrospective (rather than prospective) application of the Standard when first applied by an entity. |

The Board requested staff to consider whether the references to regulation in the ED are appropriate from the grantor's perspective.

It was agreed that a subcommittee comprising the Chairman and Messrs Appleyard, Jenkin, McPhee and Rix will finalise the Board's submission to the IPSASB out of session.