

Service Concession Arrangements – Additional Issues for Consideration

Key issues for Board consideration			
Reference	Paragraph	Comment	Staff response
1	5-8	<p>We note the proposed standard has some inconsistencies with Interpretation 12 and other standards:</p> <ul style="list-style-type: none"> (a) applies to service concession assets (which include intangible assets and, potentially, land) rather than merely infrastructure (which almost certainly excludes intangible assets and land) (b) covers public services rather than services to the public provided by the operator on behalf of the grantor, thereby arguably broadening the scope of IPSAS 32 (c) applies to, rather than excludes, arrangements where the grantor gives the operator a right to use the subject asset, thus overlapping with the scope of the pronouncements on leases (d) permits rather than prohibits the use of an annuity (i.e. interest) method for amortisation, thus potentially deferring the recognition of some grantor revenue.” 	<ul style="list-style-type: none"> (a) This is consistent with the IPSAS 32 scope. AASB staff will seek Board member feedback on this issue at the February meeting. (b) Staff do not agree that the proposed amendments increases the scope of the Standard. (c) Staff do not believe think that there is much scope for overlap. Though, to the extent there is, an adjustment could be made to scope out service concession arrangements of this nature from AASB 117 <i>Leases</i> akin to other items scoped out in paragraph 2 of that Standard. (d) As per the Standard, the Board agreed at the December 2014 meeting (M142) that revenue should be deferred in line with the notion of ongoing contract obligations (/performance obligation).
2	14-28	<p>While the alternate approach to the structure of the ‘recognition and measurement of liabilities’ section proposed in the paper was favourable, drafting that included ‘recognition of consideration’ was problematic. Could a third version be provided that maintained the structure, but adjusted the drafting to address such issues?</p>	<p>These issues will be discussed as part of <i>Agenda Paper 5.2</i></p>
3	14-28	<p>In the alternate version of this section provided in the staff issues paper:</p> <ul style="list-style-type: none"> • the heading should be changed to ‘Recognition and Measurement of Obligation’, rather than consideration • In paragraph 17, ‘of’ should be changed to ‘or’ • Paragraph 22 refers to ‘shall be recognised as expenses’, should this be ‘finance expenses’ 	

Reference	Paragraph	Comment	Staff response
4	AG17	<p>Concerns were raised around whether the additional text (shown below) was too black and white for the Standard.</p> <p><i>'Alternatively, the grantor may be required to derecognise the asset at a point in which it no longer regulates pricing, but rather allows the operator to freely set prices for use of the service concession asset'</i></p>	<p>In reconsidering this paragraph, staff think the text should be changed to read <i>'in which it <u>or a third party</u> no longer regulates pricing'</i></p> <p>The version provided to Board Advisers on 4 March will include rewording of this section.</p>
5	AG20	<p>Reword section to make it clear what it is trying to say.</p>	<p>It is proposed that the wording will be changed to the following to avoid confusion for practitioners.</p> <p><i>Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor shall recognise and measure the asset in accordance with this [draft] Standard. This recognition is contingent on the asset also meeting the recognition criteria for an asset, consistent with AASB 116 and AASB 138 as follows:</i></p> <ul style="list-style-type: none"> <i>a) it is probable that future economic benefits associated with the item will flow to the entity; and</i> <i>b) the cost of the item can be measured reliably.</i>

Reference	Paragraph	Comment	Staff response
6	AG72	Are we sure that the difference should go to equity and not a revaluation reserve?	<p>In reviewing this, staff confirmed that as per AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> the retrospective change in accounting policy shall be adjusted in equity. In addition, AASB 1 <i>First Time Adoption of Australian Accounting Standards</i>, deemed cost is required to go to equity on transition.</p> <p>One issue to consider is the fact that ideally the revaluation surplus should only reflect fair value uplifts - however any surplus here would consist of not only any changes in fair value but also differences in how the liability is amortised (not straight line) and how the asset is amortised (i.e. straight line). Hence what may be going to the revaluation surplus is not clearly only revaluation uplifts.</p> <p>The bigger issue to consider is that in early life arrangements, the liability increases before it starts decreasing because of the fact that interest charged in the earlier years is higher than the payments made. Hence for early life arrangements, the liability may be higher than the fair value of the asset, and consequently the amount that would be recognised in the revaluation surplus would be negative (i.e. a debit) - which is not an intuitive outcome.</p> <p>One way staff have identified that could address this issue to state that any difference should go to equity (whether the asset is subsequently carried at cost or fair value) in the Standard. Then in the BC, it could be stated that where the difference between the fair value of the asset and the liability is positive then the amount can be recognised in the revaluation surplus (however where the difference is negative it should not be recognised in the revaluation surplus).</p>

Reference	Paragraph	Comment	Staff response
7	BC5	A question was raised as to whether it was necessary to include Government Business Enterprises (GBEs) in scope of this Standard?	Based on discussions with constituents staff think it is appropriate to include GBE's in scope as these entities undertake Service Concession Arrangements from a grantor perspective. Scoping GBE's out of the [draft] Standard would then be inconsistent with the objective of the [draft] Standard: to provide a more holistic picture of the financial position and operations of such organisations. However, staff would welcome feedback from the Board on this point.
8	BC19-22	<p>Noting that technically deferred revenue is not a liability under the Conceptual Framework, a question was raised on whether in the Standard the term liability should be used rather than 'deferred revenue' in situations where the grantor provided the operator consideration for the service concession asset (and associated services) in the form of a right to charge third parties.</p> <p>The reasons the Board detailed in BC19(a) – (d) as to why revenue should be deferred are effectively analogous to performance obligations accounting in AASB 15. Given this, it was felt that this section (BC19-BC22) could be redrafted to more clearly depict the link to AASB 15 and show that this outstanding performance obligation of the grantor was effectively an outstanding contract obligation of the grantor, and should be recognised as a contract liability until performed.</p>	Agreed. The version provided to Board Advisers on 4 March will include a redrafted version of this section.

Other issues identified			
Reference	Paragraph	Comment	Staff response
9	Introduction	<p>The 'reasons for issuing this Exposure Draft' needs to be expanded to discuss that this Standard will</p> <ul style="list-style-type: none"> • Bring consistency to what is currently diverse practice in the accounting for service concession arrangements • Account for assets and liabilities that til now have not been included in balance sheets of public entities • Provide guidance on the conceptual change in public sector accounting away from risks and rewards in favour of a control approach to accounting. 	Agreed. The version provided to Board Advisers on 4 March will include this.
10	Introduction	The drafting of the questions needs to be simplified in order to encourage more responses from practitioners	Agreed. The version provided to Board Advisers on 4 March will include this.
11	Introduction	Context needs to be included with respect to Question 1(b), i.e. that if a broader concept of control was to be adopted, this would potentially significantly increase the number of service concession assets recognised.	Agreed. The version provided to Board Advisers on 4 March will include this.
12	2(d)	I don't see a need for the inclusion of a reference to AASB 1049. The relevant government Department will appropriately account for transactions of this nature then consolidation into AASB 1049 will occur in any event.	Agreed. While there is scope that there could be a GGS that is not captured by (a) – (c), from a practical level this is not necessarily required. The version provided to Board Advisers on 4 March will include this.

Reference	Paragraph	Comment	Staff response
13	9	We do not disagree in principle that a ‘control by regulation’ approach is appropriate; however, the proposed approach remains rules based rather than principles based. We believe that issues previously raised have not been addressed by additional guidance, for example, how do we account for arrangements where the prices and users are not ‘regulated’?	As these assets would not be considered to be controlled or regulated, they would not be recognised as assets controlled by the grantor.
14	12	Propose to include the text ‘The reclassified service concession asset shall be accounted for in accordance with ...’ which was previously IPSAS 32 as this Standard does not provide guidance on the accounting for reclassified service concession assets.	Agreed. The version provided to Board Advisers on 4 March will include this.
15	24-26	<p>We do not disagree with the outcome (i.e. recognise deferred revenue), but note that this is a very rules-based approach. It does not set out a principle for determining whether the revenue should be recognised up front or deferred, but instead prescribes treatment that may result in consistent accounting for arrangements that are in substance different.</p> <p>What would be the accounting implications if the listed factors didn’t exist? For example, what if there was a history of the government not stepping-in in a given jurisdiction where an operator has failed. What activities is the board anticipating the grantor has to continue to provide – what if they are merely protective?</p>	<p>Although staff have some sympathy for this concern, but think that fundamentally (while the arrangements may vary in their specifics) that for the reasons discussed in the Basis for Conclusions (BC19-22), they should be accounted for as outlined in the draft ED.</p> <p>The accounting treatment for the example provided would be as per the guidance in the standard. These ‘reasons’ for the accounting treatment are not to be considered criteria, like a leases standard, but rather the reasoning by which the Board made for this treatment – as such they don’t specifically need to exist for that treatment to be undertaken.</p>

Reference	Paragraph	Comment	Staff response
16	AG 7-7.1	While the inclusion of the extra text is useful, believe it has not yet fully captured that the concept that if the pricing is regulated by anyone other than the operator, the service concession asset should be recognised. i.e. one party (for example, a State Government) could be the grantor, and a third party could be regulating the price (for example, the Commonwealth government).	Agreed. Will either adjust current version of paragraph 7.1, or add an additional paragraph to clarify this point in the version provided to the Board Advisers on 4 March.
17	AG15	Concerns around whether the whole asset – i.e. the original asset and the upgrade should be recognised as a service concession asset. For example, should a whole hospital be reclassified as a service concession asset if an additional wing is being built as part of a service concession asset.	Agreed. The version provided to Board Advisers on 4 March will include a revised version of this paragraph.
18	AG17	This paragraph suggests that where pricing is not controlled, the Grantor would not recognise the service concession asset. This would result in similar arrangements being accounted for under different standards. We note that there is no guidance on how to account for assets that are under similar arrangements, but which fall outside the scope of this standard.	Staff think that the scope and recognition criteria provided in the standard are sufficient and do not think it appropriate to include an exhaustive list of where to go for similar – but different – arrangements.
19	AG30	The proposed changes to this paragraph have changed the intent, removing the discussion around the separation of the payment.	Agreed. Based on further conversations internally, it is proposed that the version provided to Board Advisers on 4 March will include a paragraph that better explains the concept of relative fair values in such circumstances.
20	AG30	We agree with proposal to reference to AASB 13 i.e. that fair value of the Service Concession Asset would be determined in line with AASB 13, however, we note that additional guidance on how to apply AASB 13 to not-for-profits would be useful.	Staff think this issue is outside of scope for the development of this Standard, but could be considered in a project that specifically reviews the application of fair value to the not-for-profit sector.