

Summarised key points from Roundtable discussions on
ED 261 *Service Concession Arrangements: Grantor*
16 June 2015 (Melbourne), 25 June 2015 (Brisbane) and 26 June 2015 (Sydney)

Overall comments

- 1 Generally, participants agreed with the objective of the proposals in ED 261 *Service Concession Arrangements: Grantor* to prescribe the accounting for a service concession arrangement by a public sector entity.
- 2 Overall, participants requested additional guidance on the concept of control, fair value measurement of the service concession assets and liabilities, and accounting for the arrangements when transitioning to the [draft] Standard.
- 3 Some participants commented that the proposals are more rules-based than principles-based. Some participants recommended that a principles-based Standard be developed to ‘future proof’ the Standard to address emerging innovative service concession arrangements that perhaps a rules-based Standard will not be able to adequately address.

Proposed application to all public sector entities

- 4 The majority of participants agreed with the proposed application to all public sector entities in both for-profit and not-for-profit sectors.
- 5 Some participants noted that the primary focus of developing a ‘transaction neutral’ Standard may be more important than the ability for a for-profit entity to make an “explicit and unreserved statement” that its financial statements comply with International Financial Reporting Standards. Other participants were undecided.

Proposed concept of control

- 6 Generally, participants agreed with the proposed specific control concept in paragraph 8(a) that a grantor controls the asset if the “grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them and at what price”. Some participants thought more guidance was required on situations where the grantor does not control the regulator, that the basic principle could be expressed more simply as “if you implicitly or explicitly require in the contract that a price be regulated, it does not matter who the regulator is” and that some of the examples may be contradictory.
- 7 Some participants commented the [draft] Standard should:
 - (a) clarify that a broader concept of control currently applies in other Australian Accounting Standards. That is, an asset that does not meet the control and regulation definition of the [draft] Standard may still need to be recognised under other accounting Standards. This may require clarification and/or amendment to the wording of “if, and only if” in paragraph 8 that “The grantor controls the asset if, and only if...the grantor controls or regulates...”.

Participants also requested more guidance, including an example, on the application of the broader concept of control in other Australian Accounting Standards for an arrangement that does not meet the control and regulation definition of the [draft] Standard;

- (b) provide additional guidance for the application of the control concept. The guidance should be more conceptual or principles based, such as those in paragraph AG9 of “The ability to exclude or regulate the access of others for benefits of assets is essential element of control”; and
- (c) provide guidance where the grantor’s ‘control’ of the asset changes during the service concession arrangement. This should include guidance where there is a change in the third party regulation of the price and/or service during the term of the service concession arrangement.

- 8 Participants also requested the inclusion of a complex example to illustrate the concept of control.

Proposed asset measurement at fair value

- 9 Generally, participants agreed with the proposed measurement of service concession assets at fair value in accordance with AASB 13 *Fair Value Measurement*.
- 10 Some participants raised specific concerns relating to the application of the fair value concept of AASB 13 to public sector assets. These participants requested that the AASB undertake a separate project to address these concerns.
- 11 Some participants requested additional guidance, including examples, for the fair value measurement of the service concession asset where the operator constructs an asset for the grantor in an exchange for the operator to generate revenue by charging users of another asset.

Proposed liability recognition and measurement

- 12 The majority of participants support the recognition of a liability measured at the same amount as the service concession asset. Some participants expressed that it may be difficult to reliably determine the fair value of the liability independent of the service concession asset.
- 13 The majority of participants expressed support for the proposed recognition and measurement of a service concession liability under the proposed financial liability model and grant of a right to the operator model. Some participants requested more guidance on the measurement of a liability, especially for hybrid arrangements containing both the financial liability and grant of a right to the operator models.
- 14 Some participants commented that under the grant of a right to the operator model, the [draft] Standard, unlike the ED, should state that where the grantor initially recognises a service concession asset, the grantor should not recognise day one revenue measured at the same amount as the service concession asset. Instead, the [draft] Standard should specify the grantor must recognise a service concession liability. They also noted that it might be easier to not try and justify the conceptual basis, and just indicate it’s a rule.

Proposed defined terms

- 15 The majority of participants supported the proposed defined terms in Appendix A. Some participants commented while they agree with the definition of the individual terms, however, when the defined terms are read together, the definitions can be circular, in particular the definition of a service concession arrangement and service concession asset.
- 16 The majority of participants commented that, while they support the inclusion of the definition of ‘public service’, they find the definition unclear. ‘Public service’ is defined as “A service that is provided by government or one of its controlled entities, as part of the usual government function, to the community, either directly (through the public sector) or by financing the provision of services”¹. In particular, participants were unclear with the expressions ‘usual’ and ‘community’. The participants requested that the [draft] Standard amend the proposed definition to possibly exclude the expressions.

Proposed application date and transition

- 17 Participants generally expressed support for the proposed transition requirements, and noted that the proposals will need a significant amount of time to implement and will require the review of contracts for existing service concession arrangements and systems changes to capture the required information. Participants requested a longer transition period, especially for those entities that choose to apply the [draft] Standard retrospectively.
- 18 Some participants expressed the view that the proposals need not have an effective date that is the same as AASB 15 *Revenue from Contracts with Customers*. That is, the [draft] Standard should not defer the proposed application date to align with the proposal of ED 263 *Effective Date of AASB 15 Revenue from Contracts with Customers (Proposed amendments to AASB 15)* to defer the application date of AASB 15 to 1 January 2018. However, participants would prefer to have a longer transitional period for the reasons outlined in paragraph 18 above.
- 19 Participants also requested additional guidance for the application of the transition provision of using deemed cost for the grant of a right to the operator, in particular the measurement of liability in paragraph AG65. Additionally, participants requested that AG65 contain a similar statement to AG64 of “Any difference between the value of the asset and the financial liability is recognised directly in net assets/equity. If the entity chooses as its accounting policy the revaluation model in AASB 116 or AASB 138, this difference is included in equity”.

Other issues

- 20 Some participants supported the proposed disclosure for each material service concession arrangement or in aggregate for each class of service concession arrangements.

¹ ED 261 *Service Concession Arrangements: Grantor* – Appendix A Defined Terms