



Cover Memo

Project:	Service Concession Arrangements	Meeting	AASB December 2015 (M149)
Topic:	Redeliberation of Proposed Control Concept, Alternative Models to Liability Recognition and Measurement	Agenda Item:	12.0
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		Decision-Making:	High
		Project Status:	Redeliberations

Introduction and objective of the meeting

- 1 The objective of this meeting is:
 - (a) to obtain Board decisions on the proposed concept of control for service concession arrangements;
 - (b) seek Board members' participation in exploring alternative models to those proposed for the recognition and measurement of a service concession liability under the proposed grant of the right to the operator model; and
 - (c) provide the Board with a revised project update (refer to Appendices A and B).

Link to project summary

http://www.aasb.gov.au/admin/file/content102/c3/Service_Concession_Arrangements_Project_Summary.pdf

Attachments

Agenda Paper 12.1 Staff Paper – Service Concession Arrangements – Redeliberation of Proposed Concept of Control

Overview of agenda papers

- 2 Agenda Paper 12.1 considers, for inclusion in the final Standard, the proposed:
 - (a) application guidance on the control concept that is more principles-based;
 - (b) application guidance on the broader control concept; and
 - (c) additional guidance and examples.

- 3 In commenting on ED 261, some constituents requested more guidance on the fair value measurement of a service concession liability. One possible reason for those constituents' concerns about the fair value measurement of the service concession liability is whether the proposed 'grant of the right to the operator' (GORTO) model in ED 261 is the correct model for recognising the service concession liability. Consequently, Staff could reassess whether the proposed recognition and measurement of a service concession liability under the GORTO model is appropriate. The alternative models that could be considered are:
- (a) applying, the licensing application guidance in AASB 15 *Revenue from Contracts with Customers* by analogy;
 - (b) applying the 'financial liability' approach to all service concession arrangements; and
 - (c) accounting separately for the arrangement as physical assets and the right to charge users for the use of the service concession assets.
- 4 Staff would seek Board members' participation in examining alternative models referred to paragraph 3 above.

Summary of staff recommendations

- 5 Staff recommend:
- (a) principles based approach to the control concept – the final standard:
 - (i) retain the requirements of the control concept in paragraph 8, which the majority of the constituents support; and
 - (ii) structure and refine the application guidance paragraphs relating to the control concept as proposed in AGx1-AGx3 (in Appendix A);
 - (b) broader application of the control concept – that the final Standard include a new:
 - (i) application guidance paragraph AGx5 (in Appendix A) to make explicit the requirement to apply the broader concept of control in other Australian Accounting Standards; and
 - (ii) a table, in a new 'Implementation Guidance' section (in Appendix B), that sets out the typical types of arrangements for private sector participation in the provision of public sector services with references to the relevant Australian Accounting Standards that may apply to those arrangements;

- (c) additional guidance and examples on:
- (i) control or regulation specified in a contract or otherwise – include in the final Standard:
 - an amendment to paragraph AG9 of ED 261 to clarify that a grantor has control of the service concession asset if the contract to the arrangement:
 - specifies that the grantor controls or regulates the price, services and/or to whom the services must provide; or
 - conveys the right to control the use of the asset to the grantor even when a third-party regulator regulates the price, services and/or to whom the services must provide (as per paragraphs AGx1 and AGx2 in Appendix A); and
 - the content of the staff analysis in this area in the Basis for Conclusion paragraphs BCx1 in Appendix C;
 - (ii) long term leases and privatisation and outsourcing –by:
 - removing the words “(eg outsourcing, service contracts, or privatisation)” from the scope in paragraph 6 of the final Standard;
 - including a new application guidance paragraph AGx6 (in Appendix A) clarifying that outsourcing, service or privatisations arrangements may be outside the scope of the final Standard if the arrangement does not meet the control criteria of paragraphs 8 or 9; and the example where the arrangement conveys the right to use the asset from the public sector entity to the private sector purchaser; and
 - include the table in the Implementation Guidance;
 - (iii) regulated public utilities industry (such as the supply of water, sewerage or electricity) – which is addressed under long term leases and privatisation and outsourcing arrangements;
 - (iv) changes in grantor’s control of the asset – include in the final Standard application guidance paragraphs AGx7-AGx9 (in Appendix A) that:
 - where there is a change in the grantor’s control of the asset, the arrangement should be assessed to determine whether it is still within the scope of the final Standard; and
 - where the grantor no longer has control of the asset, as specified in paragraph 8(a) of the final Standard, the grantor assesses whether the arrangement shall be recognised under another Accounting Standard;

- (v) determination of ‘significant residual interest, ‘current value’ – include in the final Standard the:
 - word ‘fair value’ in place of ‘current value’ in the context of determining an asset’s residual interest in the application guidance in paragraph AGx11; and
 - content of Staff analysis in the Basis for Conclusion paragraphs BCx2-BCx7 (in Appendix C) there are sufficient guidance in existing Standards and pronouncements that do not warrant further guidance in this area;
- (vi) relationship between ‘significant residual interest’, and the ‘whole-of-life’ –in the final Standard amend application guidance paragraph AGx12 to clarify the term whole-of-life asset in relation to the control concept is the entire useful life or the major part of the useful life of the asset.

Next steps

- 6 The next steps would depend on the Board decisions on the Agenda Paper.
- 7 Staff intend to bring, for Board consideration and deliberation, at the February 2016 meeting, the redeliberation of the proposed asset measurement at fair value and liability recognition and measurement.

Appendix A: Service Concession Arrangements Project Plan (Update for December 2015 Board Meeting)

Summary of Project Plan in order of Board meeting dates

The table below summarises the main topic areas for Board consideration and deliberations in order of Board meeting dates.

Board meeting	Board actions	Project step(s) ¹	Status ²
2–3 Sep 2015	Board to consider comments received from ED 261 and approve draft Project Plan		Completed
21–22 Oct 2015	Board to: (a) redeliberate the proposed application to all public sector entities; and (b) consider the proposal the ‘field test’	1	(a) Staff to undertake further outreach and report findings at future Board meeting for consideration (b) Completed
2–3 Dec 2015	Board to redeliberate the proposed: (a) concept of control; (b) asset measurement at fair value; and (c) liability recognition and measurement	2 – 4	<ul style="list-style-type: none"> • Redeliberate action item (a) concept of control • Action items (b) and (c) to be considered at April 2016 Board meeting
23–24 Feb 2016	Board to deliberate findings of ‘field test’ and changes to draft Standard of: (a) application to all public sector entities; (b) concept of control; (c) asset measurement at fair value; and (d) liability recognition and measurement	1 – 4	<ul style="list-style-type: none"> • Action items (a) to (d) moved to August 2016 Board meeting • Reassess alternative models to the ‘grant of the right to the operator model’ for recognition and measurement of service concession liability
19–20 Apr 2016	Board to redeliberate the proposed: (a) defined terms; (b) other revenues, lifecycle costs and GAAP/GFS implications; (c) application date and transitional provisions; and (d) disclosures	5 – 8	<ul style="list-style-type: none"> • Action items (a) to (d) moved to June 2016 Board meeting • Present preliminary findings of field test • Redeliberate proposed asset measurement at fair value and liability recognition and measurement
21–22 Jun 2016	Board to consider any sweep issues	9	<ul style="list-style-type: none"> • Redeliberate proposed defined terms, other revenues, lifecycle costs and GAAP/GFS implications, application date and transitional provisions and disclosures • Consider sweep issues
30–31 Aug 2016	Board to review pre-ballot draft Standard	10	<ul style="list-style-type: none"> • Present field test findings and draft guidance for Board consideration and decision on application of final Standard to all public sector entities, control concept, asset measurement at fair value and liability recognition and measurement
Sep/Oct 2016 (out of session)	Board to vote on Ballot Standard	10	<ul style="list-style-type: none"> • Board to review pre-ballot draft Standard • Board to vote on Ballot Standard

¹ The ‘Project step(s)’ correspond to those contained in the ‘Detailed draft Project Plan and timetable’ approved by the Board at the September 2015 Board meeting.

² The timing in the ‘Status’ column are the revised estimated completion time following Staff discussions with field test participants and academic regarding their availability to undertake the required tasks.

Appendix B: Field Test Project Plan (Update for December 2015 Board Meeting)

The table below details the major steps and timing of the field test.

	Project step	Responsibility	Estimated completion time	Status³
1	Establish field test participants (FTP) and terms of reference			
1.1	Determine the role and draft composition of FTP	Staff	30/10/15	Completed
1.2	Establish terms of reference for field test	Staff, Academic	30/10/15	Completed
1.3	Confirm FTP	Staff	30/10/15	Completed
2	Conduct field test – Application of proposed requirements in ED 261 to FTP fact patterns			
2.1	Meetings (teleconferences) with FTP to discuss: (a) Terms of reference of field test including participants' role; and (b) Scope of issues to be explored in field test	Staff, Academic, FTP	Early/Mid Nov 2015	Meeting schedule for 8/12/15
2.2	FTP apply the proposals in ED 261 to their specific service concession arrangement fact patterns	FTP	Mid Nov – Mid Dec 2015	Mid Dec 2015 – End Feb 2016
2.3	Meet with FTP to discuss outcomes of application of ED 261 to fact patterns	Staff/Academic	Dec 2015 / Jan 2016	End Mar 2016
3	Develop guidance and blended examples			
3.1	Analyse comments and examples received from steps 2.2 and 2.3	Staff/Academic	Early Feb 2016	Apr/May 2016
3.2	Present preliminary findings of field test to the Board	Staff	23-24 Feb 2016	19-20 Apr 2016
3.3	Draft guidance and blended examples	Staff/Academic	24/3/16	Apr/May 2016
3.4	Comments on draft guidance and blended examples from FTP members and Advisory Panels	FTP/Advisory Panels	15/4/16	Jun 2016
3.5	Collate and update comments on draft guidance and blended examples and finalise guidance and blended examples for Board consideration	Staff/Academic	6/5/16	Jul 2016
3.6	Prepare Staff Paper for August 2016 Board meeting	Staff	27/5/16	Aug 2016
4	Present finding and guidance for Board consideration and decision	Staff	21-22 Jun 2016	30-31 Aug 2016

³ The timing in the 'Status' column are the revised estimated completion time following Staff discussions with field test participants and academic regarding their availability to undertake the required tasks.