

27 July 2015

Kris Peach
Australian Accounting Standards Board
Level 7, 600 Bourke Street
Melbourne, VIC 3000

Online submission: www.aasb.gov.au

Dear Ms Peach

Submission on Exposure Draft ED 261: Service Concession Arrangements - Grantor

Thank you for the opportunity to comment on the Exposure Draft on the proposed Accounting Standard AASB 10XY *Service Concession Arrangements: Grantor*. CPA Australia and Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) have considered the Exposure Draft of the proposed standard and our comments are set out below.

CPA Australia and Chartered Accountants ANZ represent over 250,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia in Australia and internationally.

We commend the Australian Accounting Standards Board (AASB) for developing the proposed standard intended to bring consistency to grantor accounting for service concession arrangements. We are broadly supportive of the proposals that are based on IPSAS 32 *Service Concession Arrangements: Grantor*. However, we believe the proposed standard needs to incorporate further guidance and illustrative examples to assist entities that are expected to apply it.

Our detailed responses to specific questions are included in the attached appendix. Please note we have only included those questions to which we have provided a response. If you have any questions regarding this submission, please do not hesitate to contact either Ram Subramanian CPA (CPA Australia) ram.subramanian@cpaaustralia.com.au or Dr Michael Fraser CA (Chartered Accountants ANZ) michael.fraser@charteredaccountantsanz.com.

Yours sincerely



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APPENDIX

- 1. The proposed application to all public sector entities is wider than IPSAS 32 Service Concession Arrangements: Grantor, upon which the [draft] Standard is based. IPSAS 32 applies to all public sector entities other than Government Business Enterprises (GBE). A GBE is akin to a for-profit public sector entity. The proposed approach is consistent with the AASB's policy of making accounting Standards that require like transactions and events to be accounted for in a like manner for all types of entities, which is referred to as transaction neutrality. Do you agree with the proposed application to all public sector entities? Why or why not?**

To enable a consistent approach to grantor reporting of service concession arrangements, we agree with the proposed application to all public sector entities.

We also believe the proposed standard could potentially be understood to apply to private sector entities, for the following reasons:

- Paragraph 2 of the proposed standard uses terminology appearing in most Australian Accounting Standards that equally applies to both the public and private sectors.
- Paragraph 5 of the proposed standard indicates that it should be applied by operators providing a public service, which is defined to include government and its controlled entities providing services to the community, either directly, or indirectly.
- Background paragraph 3(a) of IFRIC 12 *Service Concession Arrangements* contemplates the possibility of the grantor being a private sector entity.

Whilst we support the development of transaction neutral standards that apply to both private and public sector entities, we recommend clarifying whether:

- the intention is to apply the standard to both public and private sector entities, and
- those entities that have previously stated compliance with IFRS (both in the private and public sectors) can continue to do so if they are required to apply the proposed standard.

- 3. The [draft] Standard proposes the 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”. This mirrors the control concept in AASB Interpretation 12. The AASB notes that a broader concept of control currently applies in other Australian Accounting Standards. An asset that does not meet the control and regulation definition of this [draft] Standard may still need to be recognised under other accounting Standards. Do you agree with the proposed specific control concept in paragraph 8(a) of the [draft] Standard? That is, applying a narrower concept of control in the [draft] Standard than other accounting Standards. Why or why not?**

We believe further guidance and illustrative examples are required to assist entities in applying the “control or regulation” criteria. We set out two scenarios below to highlight the need for further guidance in applying the “control or regulation” criteria:

- The proposed standard contemplates that a grantor could regulate the services provided by the operator, including regulation of price by a third-party regulator. We believe the current wording of the proposed standard could inadvertently apply to arrangements that are not in substance, service concession arrangements. For example, services provided by the operator of an airport that has been leased on a long-term lease from government, may be subject to price regulation by a third-party government regulator. Whilst we do not believe the proposed standard intends to apply to such arrangements, the requirements could be interpreted to do so.
- In some arrangements, a third-party regulator may impose price regulation after the arrangement has commenced. It is not clear whether such arrangements should be considered service concession arrangements once a third-party regulator becomes involved,

or whether the grantor should consider this possibility at the commencement of the arrangement and account for it accordingly.

- 6. The [draft] Standard proposes that the grantor account separately for each part of the total liability recognised for the service concession arrangement where the arrangement involves the grantor both incurring a financial liability and granting a right to the operator. Do you agree that the [draft] Standard provides appropriate guidance for the separate recognition of the liability? Why or why not?**

We believe further guidance is needed for hybrid arrangements that give rise to liabilities under both the “financial liability model” and the “grant of a right to the operator model”.

Guidance provided in paragraph AG54 indicates that “each portion of the liability is recognised initially at the fair value of the consideration paid or payable”. A “grant of a right to the operator model” arrangement does not necessarily involve any “consideration paid or payable”. We suggest the guidance provided recognises these circumstances.

The liability initially measured is proposed to be the same amount as the service concession asset (with adjustments if applicable), and the service concession asset is measured at fair value in accordance with AASB 13 *Fair Value Measurement*. The proposed standard does not set out requirements for fair valuing the liability itself, particularly where there are hybrid arrangements. Often, as the fair value of the financial liability, under the financial liability model, can be more reliably estimated, we recommend that the grantor should be required to establish the fair value of the financial liability portion of the hybrid arrangement, with any remainder allocated to the grant of a right liability.

- 7. IPSAS 32 includes guidance in relation to other revenues in paragraphs AG55-AG64. Other revenues relate to compensation by the operator to the grantor for access to the service concession asset by providing the grantor with a series of pre-determined inflows of resources. The [draft] Standard does not include this guidance, for the reasons outlined in paragraphs BC27 and BC28. Do you agree that guidance on the accounting treatment of other revenues from a service concession arrangement is not required? Why or why not?**

Paragraph 29 refers the grantor to AASB 10XX *Income of Not-for-Profit Entities* when accounting for other revenues. Whilst we support cross-referencing to another standard where relevant, as this proposed standard intends application by both for-profit and not-for-profit entities, we suggest that paragraph 29 be amended to accommodate both types of entities.

- 8. The [draft] Standard includes defined terms in Appendix A. Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not?**

In particular, do you agree with the proposed definition of a ‘public service’ 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”? Why or why not?

Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?

Feedback we have received indicates that the definition of “public service” is very broad and subject to interpretation that can give rise to inconsistent application. The terms “usual government function” and “community” can be interpreted differently in different circumstances. We recommend revising the definition to ensure there is a clear and consistent meaning of “public service”.

11. In relation to the proposed application date and transitional requirements:

- (a) Do you agree the proposed application date is appropriate, and if not, what further considerations should be taken into account to determine the application date of the [draft] Standard?**
- (b) Do you agree with the proposed transitional provisions set out in paragraph 33? Why or why not? The transitional provisions permit the grantor to apply the [draft] Standard retrospectively or elect to recognise and measure the service concession asset and liabilities at the beginning of earliest period for which comparative information is presented using deemed cost.**

Given the significant size and complexity of some service concession arrangements, many entities that are affected by the proposed changes, are likely to need more time to prepare for the proposed new requirements. We recommend that the proposed application date should be deferred by at least one year, with early adoption permitted.