

## [WORKING DRAFT]

AASB Invitation to Comment

ITC XXX  
XXX

# Post-implementation Review of AASB 1059 *Service Concession Arrangements: Grantors*

Comments to the AASB by ... [Date 2022]

### **Note 1 to Board members – Introduction and the objectives of this paper**

This paper is a working draft of the Invitation to Comment (ITC) for the post-implementation review (PIR) of AASB 1059 *Service Concession Arrangements: Grantors*. This paper is annotated with notes and questions for Board members.

The objectives of this paper are for the Board to:

- (a) decide the topics to be included in the ITC;
- (b) decide the amount of background information to include in the ITC for each topic; and
- (c) give direction to staff regarding the nature of the questions to respondents for inclusion in the ITC.

Staff will amend the draft ITC based on the Board's decisions at the August 2022 meeting and feedback from targeted stakeholder consultations.



**Australian Government**

**Australian Accounting  
Standards Board**

## **How to Comment on this AASB Invitation to Comment**

The AASB is seeking comment by ... [Date 2022].

### **Formal Submissions**

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website ([www.aasb.gov.au/current-projects/open-for-comment](http://www.aasb.gov.au/current-projects/open-for-comment)) as a PDF document and, if possible, a Word document (for internal use only).

### **Other Feedback**

Other feedback is welcomed and may be provided via the following methods:

E-mail: [standard@aaasb.gov.au](mailto:standard@aaasb.gov.au)  
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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# AASB REQUEST FOR COMMENTS

## Introduction

The Australian Accounting Standards Board (AASB) is undertaking a post-implementation review (PIR) of AASB 1059 *Service Concession Arrangements: Grantors*. The objective of AASB 1059 is to prescribe the accounting for a service concession arrangement by a grantor that is a public sector entity.

This Invitation to Comment (ITC) aims to seek feedback from stakeholders that assist the AASB in determining whether AASB 1059 continues to meet its objective, and the pronouncement remains appropriate.

The *AASB Due Process Framework for Setting Standards* (paragraph 7.15.2) sets out that a PIR involves:

- (a) review of research that is relevant to the subject matter under review, including research by AASB staff and academics;
- (b) collation of issues received by the AASB prior to the commencement of the PIR;
- (c) stakeholder consultation to seek feedback on implementation issues and other views on the pronouncement;
- (d) consideration of the feedback received by the AASB;
- (e) publication of the findings of the PIR; and
- (f) consideration of any recommendations for changing the pronouncement, which would require the AASB to undertake a separate standard-setting consultation process.

A PIR is not intended to reconsider the underlying pronouncement in its entirety. Instead, it acknowledges that the consultation and due process during the development of a pronouncement are not a substitute for the practical application of the requirements in the issued pronouncement. For example, when the requirements in the issued pronouncement are applied in practice, unexpected issues may arise, such as a pronouncement being more difficult or costly to apply than what was expected. There might also be situations where a pronouncement unintentionally results in divergence in practice. This divergence could be due to differing judgements in applying the requirements, unclear requirements, or new or emerging transactions that were not contemplated when a pronouncement was developed.

The PIR process comprises three broad phases: planning, outreach, and feedback and next steps.

## Planning phase

The planning phase establishes the scope of matters to be considered by the PIR. These matters are identified through a review of project documentation published when the pronouncement was issued, a review of academic research and other literature, targeted outreach with selected stakeholders and consideration of matters raised by stakeholders during implementation of the pronouncement and subsequently.

## Outreach phase

During the outreach phase, the AASB will actively engage with stakeholders to seek feedback on the matters in this ITC. This outreach may include meetings with financial statement users, preparers, regulators, professional service firms, professional bodies and academics, and formal written responses from stakeholders.

## Feedback and next steps phase

The AASB considers all feedback received and prepares a feedback statement after the formal PIR consultation process. After considering feedback received during the consultation process, the AASB may decide that:

- no action is required;
- additional educational material is needed; or
- standard-setting is required.

Where additional educational material or standard-setting is warranted, this would be addressed under a separate AASB project.

## Background to AASB 1059

AASB 1059 was issued in July 2017 and applies to annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.<sup>1</sup>

### Why was AASB 1059 needed?

Public sector entities enter into service concession arrangements as a means of developing and delivering infrastructure and other assets for public services. The public sector entity (the grantor) engages another entity (the operator) to construct or otherwise provide the underlying infrastructure and other assets through which the operator will provide public services on behalf of the grantor.<sup>2</sup> In exchange for the assets and services, the grantor makes payments to the operator and/or grants the operator a right to charge users of the services (e.g. a right to collect tolls from road users).

AASB Interpretation 12 *Service Concession Arrangements*, which incorporates Interpretation IFRIC 12 *Service Concession Arrangements* issued by the IASB, prescribes the accounting by operators for public-to-private service concession arrangements. Interpretation 12 states that the operator acts as a service provider for the grantor and therefore does not control the asset it provides to the grantor. Therefore, the operator does not recognise a service concession asset in its statement of financial position. The AASB decided that AASB Interpretation 12 did not determine the grantor's accounting and therefore the accounting by grantors was a significant issue that needed to be addressed directly. In turn, AASB 1059 does not address the operator's accounting.

Prior to issuing AASB 1059, there was no specific Australian Accounting Standard that prescribed the accounting for such arrangements from the grantor's perspective. This resulted in divergence in the accounting for such arrangements, with some grantors recognising the assets provided by the operator, and related liabilities, in their statement of financial position while others did not. If grantors did not recognise the assets provided by the operator, the service concession assets were not recognised by any entity since the operator did not

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1 AASB 1059 initially had an application date of annual reporting periods beginning on or after 1 January 2019. In 2018, the AASB issued AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* to defer the application date by one year to provide stakeholders with more time for implementing the Standard.

2 This type of arrangement is also referred to as public-private partnerships (PPPs) or build-own-operate-transfer (BOOT) arrangements. However, not all PPPs or BOOT arrangements are service concession arrangements within the scope of AASB 1059 – that would depend on whether the grantor controls the asset provided by the operator, in accordance with AASB 1059 paragraphs 5–6.

recognise the assets either, in accordance with Interpretation 12. AASB 1059 addressed this issue.

Service concession arrangements are significant to the Australian economy in terms of their increasing use and the dollar value of the arrangements. To address their significance and the different practices in accounting for them, the AASB issued AASB 1059 to prescribe their accounting treatment. The recognition of service concession assets and related liabilities would assist users of financial statements to understand the resources and obligations of a grantor involved in the provision of public services (AASB 1059 paragraph BC5).

### **Main findings from the planning phase**

Feedback from stakeholders during the planning phase commented that, in some arrangements, determining whether an arrangement is within the scope of AASB 1059 is challenging as it involves significant judgement. Stakeholders also commented that applying the current requirements in the scope paragraphs in the Standard has resulted in some public-private partnership (PPP) arrangements with similar features to service concession arrangements being scoped out of AASB 1059 and accounted for differently.

In addition, stakeholders have commented that, in some situations, the measurement requirements of AASB 1059 have resulted in anomalous financial outcomes. The main findings in the planning phase have been summarised in Topic 1 to Topic 4 below.

### **We need your feedback**

Comments are invited about your experience in the accounting treatment of service concession arrangements from the grantor's perspective on matters considered in this ITC by ... 2022. Stakeholder feedback plays an important role in the AASB's standard-setting process. The AASB regards supportive and non-supportive comments as essential to a review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale, are supported by evidence and, where applicable, provide a suggestion for an alternative approach or additional support the AASB could consider providing to stakeholders. Respondents need not answer all the questions. When answering the questions, respondents are asked to consider the effect of the requirements on:

- (a) the quality and consistency of financial statements and whether they provide relevant and reliable information about an entity's financial position and performance;
- (b) comparability, both from period to period for an entity and between entities; and
- (c) the costs to users and preparers of financial information.

### **Structure of this Invitation to Comment**

This document includes [X] questions for respondents and is structured as follows:

- Topic 1: Public service
- Topic 2: Grantor's control of the service concession asset
- Topic 3: Public sector operator

- Topic 4: Recognition and measurement of service concession assets and related liabilities
- Topic 5: Other matters
- AASB General Matters for Comment.

**Question for Board members**

Q1: Do Board members have any comments on the introductory section of the draft ITC?

**Note 2 to Board members – Background information to include in the ITC for each topic and the nature of the questions to respondents**

***Background information to include in the ITC***

Public-private partnership (PPP) arrangements (including service concession arrangements) are complex, and their accounting treatment depends on the specific terms and conditions of each arrangement. Whilst each arrangement might have common features, they also contain conditions that are specific to each arrangement. Therefore, the accounting treatment for a PPP needs to consider all the requirements and guidance in AASB 1059 along with generally accepted accounting principles.

Staff consider that, in order to best elicit views from stakeholders about what additional guidance might be helpful to them, it would be useful to outline in the ITC the Board's previous decisions regarding the topic and the guidance and examples the Board added to AASB 1059. Staff have summarised those decisions and guidance for each topic below for the Board's consideration.

***Questions for respondents – two options to consider***

At the August 2022 meeting, staff will be seeking direction from the Board regarding the nature of questions for respondents to include in the ITC.

When drafting questions for respondents, a more general set of questions would avoid implying in the ITC that there are application issues with many areas of the Standard. However, staff also consider that specific questions on certain topics could be useful to gather stakeholder views on the following matters to assist the Board in considering whether, and if so how, to amend AASB 1059 in the future:

- (a) whether stakeholders have experienced inconsistent outcomes in applying AASB 1059; and if so
- (b) the situations in which those inconsistencies arise and the prevalence of those inconsistencies.

Therefore, for each of Topics 1–4 below, staff have prepared two sets of questions for respondents for the Board's consideration:

- Option 1 – these questions ask respondents for comments on a specific AASB 1059 requirement without implying there might be inconsistencies in practice; and
- Option 2 – these questions ask respondents to specify whether there are inconsistencies in practice regarding a specific AASB 1059 requirement and if so asking them to provide details of the situations in which those inconsistencies arise and the prevalence of those inconsistencies.

The questions for Board members are included at the end of each topic, asking the Board to provide comments to staff regarding the background information and the questions for respondents.

## Topic 1: Public service

### AASB 1059 requirements

AASB 1059 paragraph 2 states that for an arrangement to be within the scope of AASB 1059 and accounted for as a service concession arrangement, the arrangement must involve an operator:

- (a) providing public services related to a service concession asset on behalf of a grantor; and
- (b) managing at least some of those services under its own discretion, rather than at the direction of the grantor.

### What we have heard so far

Some stakeholders have commented that:

- (a) determining whether an arrangement is within the scope of AASB 1059 involves significant judgement and can be challenging;
- (b) it is unclear which services are considered ‘public services’ in order to determine whether an arrangement is within the scope of AASB 1059;
- (c) more guidance is needed to determine whether a secondary asset – an asset used or mainly used to complement the primary asset through which the public services are principally provided – would be considered “largely providing public services” for the purpose of determining whether it should be accounted for under AASB 1059; and
- (d) more guidance is needed to determine whether the operator is managing at least some of the services at its own discretion. For example, is an operator managing railway workers’ rosters considered to be “managing some of the public services” when the operator has no control over the timing of the railway services?

### The AASB’s previous considerations and conclusions

The AASB proposed a definition of the term ‘public service’ in its Exposure Draft ED 261 *Service Concession Arrangements: Grantors* (May 2015). Whilst respondents to ED 261 supported the inclusion of a ‘public service’ definition, they commented that the proposed definition was unclear. The AASB concluded that any definition of ‘public service’ would result in similar interpretative issues as those raised by those respondents.

Consequently, the AASB decided that, instead of providing a definition, the Standard should include guidance in the form of indicators and examples to demonstrate the existence of public services, for assessing whether an arrangement is within the scope of the Standard (as outlined below). This approach is consistent with IPSAS 32 *Service Concession Arrangements – Grantor* and AASB Interpretation 12, which do not contain a ‘public services’ definition (AASB 1059, paragraph BC18).

In lieu of a ‘public service’ definition, the AASB provided guidance on the following:

- (a) characteristics of the provision of public services by considering:
  - (i) the characteristics of the services provided by the asset, that is:
    - the services provided by the asset are necessary or essential to the general public and are generally expected to be provided by a public sector entity in accordance with government policy or regulation; and



- the services are accessible to the public, even if it is a subset of the community that uses the services (paragraph B6);
- (ii) the services provided by the primary asset and the secondary asset:
- where an arrangement provides public services principally through the primary asset, and a secondary asset is used or is mainly used to complement the primary asset, the secondary asset would be regarded as providing public services as well. This is on the proviso that secondary assets are constructed as part of the primary asset service concession arrangement (paragraph B7);
  - however, where the secondary asset is constructed subsequent to the construction of the primary asset, other factors need to be considered as to whether the secondary asset is regarded as an asset that provides public services and is within the scope of AASB 1059. The factors to consider for the secondary asset include whether the asset is largely of a commercial nature and whether the construction party is different from the constructor of the primary service concession asset (paragraph B7);
- (iii) where the services provided by the asset are used wholly internally by a public sector entity for the purpose of assisting the entity to deliver public services, but managed by an external party, the arrangement is likely to be an outsourcing arrangement or a lease and therefore outside the scope of the Standard (paragraph B8); and
- (b) the operator's involvement in managing the provision of public services. For an arrangement to be within the scope of the Standard, the operator must be responsible for providing public services through the asset and for managing at least some of the public services and related services, and not act merely as an agent on behalf of the grantor through an outsourcing arrangement. Factors to consider include the operator managing some of the operational services (i.e. day-to-day activities) of the asset at the operator's discretion. Operational services in the form of maintenance services such as cleaning, building maintenance and security are generally regarded as relatively insignificant to the services provided by the asset. Such maintenance services would generally be considered to be an outsourcing arrangement (paragraph B10).

The Implementation Guidance section of the Standard provides additional guidance in the form of:

- (a) Example 1: Limited operator services – illustrates the operator being responsible for cleaning and security services that does not constitute management of at least some of the public services provided by the asset, with the conclusion that the arrangement is therefore outside the scope of the Standard (paragraphs IG4-IG5).
- (b) Example 2(a): Facility maintenance at the discretion of the operator – illustrates the operator, in addition to providing cleaning and security services, is also responsible for the maintenance of school facilities to a specified condition at the operator's discretion. The facility maintenance does not represent a significant component of the public services provided by the asset and represents an outsourced service to the grantor and the arrangement is therefore outside the scope of the Standard (paragraphs IG6-IG7).
- (c) Example 2(b): Operator has management responsibilities – illustrates the operator is responsible for determining the operational services (i.e. day-to-day activities) of how many staff are required and facilities maintenance by providing upgrades and maintaining the asset to a specified condition. The operator has discretion as to when and how it carries out these responsibilities. The operator therefore accesses the asset to provide public services and is responsible for at least some of the management of the asset's services. As such, the arrangement is within the scope of the Standard.

### Questions for respondents – Option 1

1. Do you have comments regarding the application of the following requirements of AASB 1059:
  - (a) the use of the term ‘public service’;
  - (b) the operator’s involvement in providing public services on behalf of the grantor;
  - (c) the operator managing at least some of the public services under its own discretion;  
and
  - (d) the approach to secondary assets?

If so, please provide your views on those requirements, relevant circumstances and their significance.

2. Do you have comments regarding the characteristics of an arrangement that would distinguish it as a service concession arrangement from other arrangements such as a privatisation or outsourcing arrangement, or a lease? If so, please provide your views on those characteristics.

### Questions for respondents – Option 2

3. Have you experienced inconsistent outcomes when applying the following requirements of AASB 1059:
  - (a) the use of the term ‘public service’;
  - (b) the operator’s involvement in providing public services on behalf of the grantor;  
and
  - (c) the operator managing at least some of the public services under its own discretion?

If so, please describe these outcomes and explain the situations in which they arise. In your response, please explain the prevalence of these inconsistencies, the accounting adopted and the reasons for that accounting.

4. Have you experienced inconsistent outcomes in determining how a secondary asset is identified as an asset to be accounted for under AASB 1059? If so, please provide details of these outcomes and explain the situations in which they arise, including:
  - (a) the characteristics of the secondary asset or the arrangement that caused difficulties in assessing whether the secondary asset should be regarded as an asset in providing public services and is within the scope of AASB 1059, such as references to the commercial nature or the construction party of the secondary asset; and
  - (b) the accounting adopted for the secondary asset and the reasons for that accounting.

5. *[Same as option 1]* Do you have comments regarding the characteristics of an arrangement that would distinguish it as a service concession arrangement from other arrangements such as a privatisation or outsourcing arrangement, or a lease? If so, please provide your views on those characteristics.

**Questions for Board members**

- Q2: Do Board members have any comments regarding the background information for Topic 1 – Public service?
- Q3: In respect of the questions for respondents, do Board members prefer Option 1 or Option 2?
- Q4: Are there any other questions for respondents that Board members would like to include in the ITC regarding Topic 1?

## **Topic 2: Grantor's control of the asset**

### **AASB 1059 requirements**

For a grantor to recognise an asset as a service concession asset, the grantor must control the asset. AASB 1059, paragraph 5, states that the grantor controls the asset if, and only if:

- (a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- (b) the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

### **What we have heard so far**

Some stakeholders commented that too much judgement is involved in determining whether a grantor controls a service concession asset. They requested more guidance to assist in identifying how much 'control' the grantor needs to have over the services and/or pricing of the services to determine whether an arrangement is within the scope of AASB 1059.

Some stakeholders also commented that it may be difficult to determine whether the grantor has control of the significant residual interest in the asset at the end of the term of the arrangement, particularly where an arrangement has an option for the operator to extend the concession term at the end of the initial arrangement.

### **The AASB's previous considerations and conclusions**

#### ***Grantor controls or regulates the services and prices***

When developing the Standard, the AASB noted that the control concept in AASB 1059 is consistent with the control concept in AASB Interpretation 12 and IPSAS 32 and that a broader concept of control currently applies in other Accounting Standards (AASB 1059, paragraph BC28). The AASB decided that the Standard should provide guidance by outlining the principles of the control concept along with scenarios and examples that illustrate this concept.

Consequently, the AASB provided guidance on assessing whether the grantor controls the asset by:

- (a) outlining various aspects of control of a service concession asset:
  - (i) the fundamental principle of control is the ability of the grantor to exclude or regulate others from accessing the benefits of an asset (paragraph B16);
  - (ii) where the asset is operating in an environment regulated by a third party, the grantor may not need to have explicit control over the services and/or pricing of the services to have control of the service concession asset (paragraph B19); and
  - (iv) the grantor must control or regulate all of these three factors associated with the public services: what services the asset must provide, to whom the services are to be provided, and at what price; and
- (b) examining scenarios in which the grantor controls the asset, including the following:
  - (i) when the grantor controls the price of the services to be provided by the asset. This includes when the service concession contract may set the initial prices to be levied by the operator and regulate price revisions over the period of the service concession arrangement; and

- (ii) where the asset is operating in a regulated environment:
- when the price of the services is regulated by a third-party regulator (e.g. by a capping mechanism), the price is regarded as controlled by the grantor on the basis that the regulation removes the ability of the operator to determine the price. Conversely, if the operator is able to determine to whom the services are provided, but is subject to the grantor's control over what services may be provided and the pricing, the grantor does not control the asset (paragraph B20);
  - the regulation must be substantive, as non-substantive features that apply only in remote circumstances are to be ignored (paragraph B24); and
  - if the regulator regulates the pricing or services to be provided by the asset, the grantor need not control or direct the activities of the regulator for the grantor to have control of the asset (paragraph B21).

In addition, the Implementation Guidance section of the Standard provides additional guidance in an example where the hospital service concession asset is partly regulated and partly unregulated by the grantor (Example 4, paragraphs IG16-IG23).

### ***Grantor's control of any significant residual interest in the asset***

The AASB provided guidance in AASB 1059 paragraph B33 on this principle as follows:

“... the grantor's control over any significant residual interest would both restrict the operator's practical ability to sell or pledge the asset (by acknowledging the grantor's residual interest in the asset) and effectively give the grantor control of the asset throughout the period of the service concession arrangement. Consequently, where the grantor has substantive, rather than merely protective, rights to prevent the operator selling or pledging the asset during the service concession arrangement (e.g. the grantor must formally approve the transferee, rather than being able to refuse merely on the grounds that the transferee is not fit and proper), then the grantor is likely to have control of any significant residual interest in the asset.”

The AASB also provided guidance in the Standard that a change in the grantor's control of the asset may arise from changes in the terms of the service concession contract or changes in third-party regulation of the price and/or services (paragraph B30). Where there is a change, the grantor assesses whether the asset is still within the scope of the Standard (paragraph B31).

### **Questions for respondents – Option 1**

6. Do you have comments regarding the application of the following requirements in AASB 1059 paragraph 5:
- (a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
  - (b) the grantor controls any significant residual interest in the asset at the end of the term of the arrangement?

If so, please provide your views on those requirements, relevant circumstances and their significance.

7. In addition to the conditions noted in AASB 1059 paragraphs 2 and 5, are there other indicators you consider helpful in determining whether an arrangement is within the scope of AASB 1059? If so, please provide details of those indicators and explain why you think they would be useful.

### Questions for respondents – Option 2

8. Have you experienced inconsistent outcomes when applying the requirements of AASB 1059 paragraph 5:
- (a) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
  - (b) the grantor controls any significant residual interest in the asset at the end of the term of the arrangement?

If so, please describe these outcomes and explain the situations in which they arise. In your response, please explain the prevalence of these inconsistencies, the accounting adopted and the reasons for that accounting.

9. In addition, have you experienced inconsistent outcomes in determining whether the grantor has control of the significant residual interest in the service concession asset where the arrangement has an option for the operator to extend the concession term at the end of the arrangement? If so, please provide details of these outcomes and explain the situations in which they arise. In your response, please explain the prevalence of these inconsistencies, the accounting adopted and the reasons for that accounting.
10. An arrangement falls within the scope of AASB 1059 only if all the following three conditions are satisfied:
- (a) the operator provides public services related to a service concession asset on behalf of the grantor;
  - (b) the operator manages at least some of the public services under its own discretion; and
  - (c) the grantor controls the service concession asset.

Do you consider it appropriate for an arrangement to be accounted for under AASB 1059 only if all three conditions are satisfied? Please provide reasons to support your view.

11. *[Same as Option 1]* In addition to the conditions noted in AASB 1059 paragraphs 2 and 5, are there other indicators you consider helpful in determining whether an arrangement is within the scope of AASB 1059? If so, please provide details of those indicators and explain why you think they would be useful.

#### Questions for Board members

- Q5: Do Board members have any comments regarding the background information for Topic 2 – Grantor’s control of the asset?
- Q6: In respect of the questions for respondents, do Board members prefer Option 1 or Option 2?
- Q7: Are there any other questions for respondents that Board members would like to include in the ITC regarding Topic 2?

### **Topic 3: Public sector operator**

#### **AASB 1059 requirements and the AASB’s previous considerations and conclusions**

As stated in AASB 1059 paragraph B2, the AASB noted that in many jurisdictions governments have introduced contractual service arrangements to attract private sector participation in the development, financing, operation and maintenance of infrastructure and other assets used to provide public services. Such arrangements are often described as public-private partnerships.

However, the scope of AASB 1059 does not explicitly state whether the operator should be a public or private sector entity (paragraph BC129). This is because the sector or the perspective of the operator should not affect the accounting by the grantor for its service concession arrangements. Therefore, the AASB did not limit the scope of AASB 1059 to arrangements where the operator is a private sector entity.

#### **What we have heard so far**

Some stakeholders commented there are many “public-to-public” service concession arrangements, which involve an operator that is a public sector entity. These arrangements are within the scope of AASB 1059 since the Standard does not exclude arrangements where the operator is a public sector entity. Many such public-to-public arrangements are within the same department or jurisdiction. Some stakeholders have suggested that the benefits of requiring intra-group transactions to be accounted for under AASB 1059 would not outweigh the costs of that accounting when it is to be reversed on consolidation for the controlling entity or the whole of government financial statements.

#### **Questions for respondents – Option 1**

- 12. Do you have comments regarding a public sector entity applying AASB 1059 as the grantor when the operator is another public sector entity? If so, please provide your views on those requirements, relevant circumstances and their significance.

#### **Questions for respondents – Option 2**

- 13. Have you experienced service concession arrangements that involve an operator that is a public sector entity? If so, please provide details of how prevalent these arrangements are, the accounting adopted and the reasons for that accounting.
- 14. Do you consider it appropriate for a grantor to apply AASB 1059 when the operator is another public sector entity? What if the public sector operator is not constituted in the same jurisdiction as the grantor? Please provide reasons for your response.

<p><b>Questions for Board members</b></p> <p>Q8: Do Board members have any comments regarding the background information for Topic 3 – Public sector operator?</p> <p>Q9: In respect of the questions for respondents, do Board members prefer Option 1 or Option 2?</p> <p>Q10: Are there any other questions for respondents that Board members would like to include in the ITC regarding Topic 3?</p>
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## **Topic 4: Recognition and measurement of service concession assets and related liabilities**

### **AASB 1059 requirements**

AASB 1059 requires the grantor to initially recognise:

- (a) a service concession asset at current replacement cost (CRC) in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement* (paragraph 7); and
- (b) a liability measured at the same amount as the service concession asset, adjusted by the amount of any other consideration (e.g. the transfer of an existing asset) between the grantor and the operator (paragraphs 11 and 12). Where the grantor compensates the operator by:
  - (i) making payments to the operator – the liability is accounted for using the financial liability model;
  - (ii) other means, such as granting the operator the right to earn revenue from third-party users of the service concession asset or access to another revenue-generating asset for the operator’s use – the liability is accounted for using the grant of a right to the operator (GORTO) model (paragraphs 12–14); or
  - (iii) partly by incurring a financial liability and partly by the grant of a right to the operator – each part of the total liability in such a hybrid arrangement is accounted for separately (paragraph 24). In a hybrid arrangement:
    - the financial liability part is measured first, using the contractually specified interest rate (if practicable) or else another appropriate rate (paragraphs 25 and B64). AASB 9 *Financial Instruments* applies to the recognised financial liability (paragraph 17); and
    - the remainder of the total liability is allocated to the GORTO part (paragraph 25).

AASB 1059 requires the grantor to subsequently:

- (a) measure a service concession asset in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Asset*, as appropriate, using the cost approach in AASB 13 (paragraphs B58 and B59);
- (b) measure any financial liability in accordance with AASB 9; and
- (c) recognise revenue and reduce the GORTO liability based on the economic substance of the arrangement (paragraph 22).

### **What we have heard so far**

Some stakeholders commented that they have experienced anomalous outcomes when applying the requirements in paragraphs 11 and 12 of AASB 1059 in initially measuring a partly completed service concession asset. Stakeholders provided the following examples:

- (a) for an arrangement involving a financial liability, there could be situations where the grantor’s contractual obligations measured under AASB 9 are greater than the CRC of the partly completed asset, resulting in a negative impact on the statement of financial position in the periods when the asset is under construction; and



- (b) AASB 1059 does not specify whether (and if so, how) the liability is required to be adjusted when the asset construction is completed to reflect the same amount as the CRC of the completed asset. For an arrangement involving a GORTO liability, if the GORTO liability is not adjusted, the subsequent revenue recognition (and reduction of the GORTO liability) would likely be significantly lower than the depreciation of the asset, resulting in an ongoing negative impact on the statement of profit or loss.

Some stakeholders also commented that other valuation techniques in AASB 13 should be permitted to be applied in measuring a service concession asset. Some stakeholders noted anomalous outcomes when measuring the fair value of a previously unrecognised internally generated intangible asset at CRC, compared with the income approach.

### **The AASB's previous considerations and conclusions**

The AASB considered, at great length, the measurement of service concession assets and related liabilities and decided the requirements in the Standard of:

- (a) measuring a service concession asset initially at CRC in accordance with the cost approach to fair value in AASB 13 on the basis that:
- (i) the cost approach reflects the amount required to currently replace the service capacity of an asset (paragraph BC62);
  - (ii) a public sector entity uses a service concession asset's capacity or service potential to provide goods and services to achieve public service objectives and would replace the asset irrespective of whether the replacement cost will be recovered by the expected cash flows that the asset may generate (paragraph BC63). The AASB noted this rationale also applies to intangible service concession assets. The AASB decided that the measurement of the asset at initial recognition should not be affected by whether the service concession asset is a tangible or intangible asset (paragraph BC69(b)); and
  - (iii) the service potential of identical service concession assets under the financial liability model and the GORTO model is the same from the grantor's perspective, as both assets will provide the same utility to the public and should therefore be measured consistently (paragraph BC64).

The AASB also considered other techniques for measuring an asset's fair value – the market approach and the income approach – but concluded that CRC is the most appropriate technique for measuring the fair value of a service concession asset (paragraphs BC54–BC61 and BC66); and

- (b) measuring the associated liability initially at the same amount as the service concession asset CRC, adjusted by the amount of any other consideration between the grantor and the operator (paragraphs 12, BC75 and BC92).

### **Questions for respondents – Option 1**

15. Do you have comments regarding the application of the requirements in paragraphs 11 and 12 of AASB 1059 to initially measure the liability at the same amount as the service concession asset, subject to certain adjustments? If so, please provide your views on those requirements, relevant circumstances and their significance.
16. In addition, do you have comments regarding the application of AASB 1059 requirements to initially recognise a partly completed service concession asset (or asset under construction) and associated liabilities? If so, please provide your views on those requirements, relevant circumstances and their significance.

17. Do you have any comments regarding the requirement to initially measure a service concession asset at its current replacement cost using the cost approach in AASB 13? Any comments regarding the requirement to subsequently measure the asset at current replacement cost under the revaluation model in AASB 116 or AASB 138? If so, please provide your views on those requirements, relevant circumstances and their significance.
18. Are there any other comments regarding the recognition and measurement requirements in AASB 1059 that you think the AASB should consider?

### **Questions for respondents – Option 2**

19. Have you experienced inconsistent outcomes when applying paragraphs 11 and 12 of AASB 1059 to initially measure the liability at the same amount as the service concession asset, subject to certain adjustments? If so, please describe these outcomes and explain the situations in which they arise. In your response, please explain the prevalence of these inconsistencies, the accounting adopted and the reasons for that accounting.
20. Have you experienced inconsistent outcomes when recognising a partly completed service concession asset (or asset under construction) and associated liabilities under AASB 1059? If so, please describe these outcomes and explain the situations in which they arise. In your response, please explain the prevalence of these inconsistencies, the accounting adopted and the reasons for that accounting.
21. Have you experienced inconsistent outcomes when initially measuring a service concession asset at its current replacement cost using the cost approach in AASB 13? Or when subsequently measuring the asset at current replacement cost under the revaluation model in AASB 116 or AASB 138? If so, please describe these outcomes, explain the situations in which they arise and the prevalence of these inconsistencies.
22. Are there any other comments regarding the recognition and measurement requirements in AASB 1059 that you think the AASB should consider? If so, please provide details of the other issues you have experienced and explain the situations in which they arise. In your response, please explain the prevalence of these issues, the accounting adopted and the reasons for that accounting.

### **Questions for Board members**

- Q11: Do Board members have any comments regarding the background information for Topic 4 – Recognition and measurement of service concession asset and related liabilities?
- Q12: In respect of the questions for respondents, do Board members prefer Option 1 or Option 2?
- Q13: Are there any other questions for respondents that Board members would like to include in the ITC regarding Topic 4?

## Topic 5: Other matters

### Questions for respondents

23. Do you have any comments regarding the disclosure requirements in AASB 1059 (paragraphs 28 and 29), which cover both qualitative and quantitative information about a grantor's service concession arrangements? If so, please provide your views on those requirements and their significance.
24. Are there any other matters that the AASB should consider as part of this PIR? If so, please explain those matters and why they should be considered, and provide examples to illustrate your response. For example, in your view are there new or emerging arrangements for which it is difficult to determine whether they are within the scope of AASB 1059 or for which service concession accounting might not be suitable?

#### Questions for Board members

Q14: Do Board members have any comments on the draft questions for respondents? Are there any other questions that Board members would like to include regarding Other matters?

## AASB General Matters for Comment

In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:

25. Does the application of AASB 1059 adversely affect any regulatory requirements for grantors?
26. Does the application of AASB 1059 result in major auditing or assurance challenges?
27. Overall, does AASB 1059 result in financial statements that are more useful to users of public sector grantors' financial statements?
28. In your view, do the benefits of applying the requirements of AASB 1059 exceed the implementation and ongoing application costs?

#### Questions for Board members

Q15: Do Board members have any comments on the General Matters for Comment section?

Q16: Are there any other questions for respondents that Board members would like to include in the ITC?