



Project:	Post-Implementation Reviews	Meeting:	May 2022 (M187)
Topic:	Project plan – PIR of AASB 1059 <i>Service Concession Arrangements: Grantors</i>	Agenda Item:	4.3
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Planning phase

Objectives of this paper

- The objectives of this staff paper are for the Board to:
 - note the key findings of the planning phase of the post-implementation review (PIR) of AASB 1059 *Service Concession Arrangements: Grantors*;
 - decide whether to commence the next phase of the PIR and start developing the consultation document immediately; and
 - consider a proposed revised timeline for completing the PIR.

Background and reasons for bringing this paper to the Board

- In accordance with paragraph 7.15.1 of the [AASB Due Process Framework for Setting Standards](#), the Board would undertake a PIR of a new domestic Standard when the new requirements have been applied for two years.
- AASB 1059 applies to annual reporting periods beginning on or after 1 January 2020.¹ For entities with a 30 June reporting date, this means the Standard was first applied mandatorily in the financial year ending 30 June 2021.² Based on the Due Process Framework, the PIR of AASB 1059 therefore should commence after July 2022.
- At its [September 2021 meeting](#), the Board decided to commence the planning phase of the PIR of AASB 1059 in the second quarter of 2022, with the aim of issuing a consultation document in the second quarter of 2023.
- The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) in its submission letter on Invitation to Comment ITC 46 *AASB Agenda Consultation 2022–2026* requested that the Board expedite the PIR of AASB 1059. The Australasian Council of

¹ AASB 1059 originally had a mandatory application date of annual reporting periods beginning on or after 1 January 2019. In 2018, the Board issued AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* to defer the mandatory application date to assist stakeholders with their implementation efforts.

² Public sector entities in one jurisdiction early-adopted AASB 1059 in the financial year ending 30 June 2019.

Auditors-General (ACAG) also noted in its submission on ITC 46 that the PIR of AASB 1059 should be a high-priority project.

6. In light of the comments from HoTARAC and ACAG, staff commenced the planning phase of the PIR of AASB 1059 in March–April 2022 and consider that we have sufficient information to commence the next phase of the PIR. The next phase of the PIR, which is the outreach phase, begins with developing a consultation document based on information obtained in the planning phase. Paragraphs 10–11 summarise the status of the planning phase. The [Appendix](#) to this paper summarises the key findings in the work undertaken to date.
7. Staff are asking the Board at this meeting to decide whether to commence the next phase of the PIR and start developing the consultation document immediately so that AASB 1059 implementation issues could be addressed earlier than originally planned.

Structure of this paper

8. This staff paper is set out as follows:
 - (a) status of the planning phase (paragraphs 10–11); and
 - (b) revised project timeline (paragraph 12).
9. The [Appendix](#) to this paper summarises the key findings in the planning phase. It provides a high-level overview of:
 - (a) the Board’s rationale for issuing AASB 1059;
 - (b) key requirements in AASB 1059;
 - (c) implementation issues staff have noted through discussions with stakeholders; and
 - (d) the Board’s process in developing AASB 1059.

There are no questions for Board members in the Appendix.

Status of the planning phase

10. As noted in Agenda Paper 4.1, at its September 2021 meeting the Board approved a process for undertaking each of the forthcoming domestic PIRs to be carried out over the 2022–2025 period. The process includes six steps in the planning phase of a PIR project before developing a consultation document, which is the first step of the outreach phase.
11. The following table summarises the status of the planning work undertaken to date and the reasons why staff consider certain planning steps are not applicable for the PIR of AASB 1059.

Planning step in the PIR process	Status/Reasons for amending the planned process
Step 1: Review of original project documentation	Step 1 is completed. The Appendix includes an overview of the Board’s rationale for issuing AASB 1059 and its process in developing the Standard.
Step 2: Collation of issues of which the AASB is aware	Throughout 2018–2022, staff had numerous discussions with stakeholders regarding issues they have noted on the scope of AASB 1059 and its recognition and measurement requirements. Those issues are summarised in the Appendix . Accordingly, staff consider Step 2 has been completed. Some of the issues noted in the Appendix were raised during the outreach in 2018, 2019 and 2021 on the three Fatal-Flaw Review Draft Standards the Board issued for comment. Although those draft Standards proposed amendments related only to the effective date and the modified

Planning step in the PIR process	Status/Reasons for amending the planned process
	retrospective transition method, respondents provided information on issues related to other requirements of AASB 1059. At the time, the Board decided to address issues related to the effective date and the transitional requirements of AASB 1059, and to consider the other implementation issues raised by respondents as part of the PIR process.
Step 3: Academic research, including identifying potential researchers to review existing academic literature and assist with new research, and collate relevant research	<p>Step 3 is yet to be completed. Staff consider that this step can be carried out concurrently with the development of the consultation document.</p> <p>Staff expect a literature review will indicate there is minimal published academic research relevant to AASB 1059 given the public sector focus and the relatively recent effective date of the Standard. However, staff intend to perform a preliminary literature review to confirm whether this is the case and will provide an update on this at a future Board meeting.</p>
Step 4: Seek preliminary feedback from targeted stakeholders, and review feedback received	<p>AASB 1059 applies to a specific group of stakeholders – public sector entities that are grantors of service concession arrangements. Therefore, the same stakeholders would be consulted in the planning and outreach phases.</p> <p>Since representative stakeholders have informed the Board of the key issues they have encountered when applying AASB 1059 (as summarised in the Appendix) and their desire for the Board to address those issues as soon as possible, staff consider that Step 4 can be omitted. The stakeholders will be consulted during the outreach phase.</p>
Step 5: Prioritise issues obtained in the planning phase to determine the scope of the consultation document	Many of the implementation issues noted in the Appendix are interrelated. Staff consider that Step 5 is not applicable to the PIR of AASB 1059 because all the issues identified to date should be considered collectively.
Step 6: Discuss steps 1–5 with the Board before developing the consultation document	<p>Based on the planning work undertaken to date, staff consider that we have sufficient information to commence the outreach phase and start developing the consultation document.</p> <p>At this meeting, staff ask the Board to consider the key findings of the planning work undertaken to date (as summarised in the Appendix) and decide whether there is sufficient information to commence developing the consultation document.</p>

Questions for Board members

- Q1: Do Board members agree that, other than Step 3 – Academic research, the planning phase of the PIR of AASB 1059 is completed and there is sufficient information to commence developing the consultation document?
- Q2: Do Board members agree that Step 3 – Academic research can be completed concurrently with the development of the consultation document?
- Q3: Do Board members agree to commence the development of the consultation document?

Revised project timeline

12. If the Board agrees in Question 3 to commence developing the consultation document, the project timeline would need to be revised. The following table contains the original timeline approved in September 2021 and staff's proposed revised timeline for the Board's consideration.

Original timeline	Staff's proposed timeline	Project milestones based on the PIR process
Planning phase		
Q2 2022 – Q1 2023	March–April 2022 (completed)	Steps 1, 2, 4 and 5
	Board meeting: 18 May 2022	Step 6: Discuss steps 1–5 with the Board before developing the consultation document.
	May–July 2022	Step 3: Academic research.
Outreach phase		
Q1 2023	May–July 2022	Step 7: Draft consultation document.
Q2 2023	Board meeting: 3 August 2022	Step 8(a): Discuss draft consultation document and the result of literature review with the Board.
	August 2022	Step 8(b): The Board or Board subcommittee to approve the consultation document for issue by 31 August 2022. Propose a 120-day comment period until the end of 2022 or early January 2023. The original timeline suggested a 180-day comment period. However, given that AASB 1059 has a relatively small number of affected stakeholders compared with other Standards, staff consider that a 120-day comment period would be sufficient.
Q2 2023 – Q4 2023	September – December 2022/ January 2023	Step 9: Undertake general and targeted outreach to seek stakeholder feedback on the consultation document.
Consideration of feedback and next steps phase		
Q4 2023 – Q1 2024	Q1 2023	Step 10: Consultation comment period closes at the end of 2022 or early January 2023 (the original timeline has a planned comment period until Q4 2023).
		Step 11: Review and summarise responses received on the consultation document and through outreach. Perform follow-up procedures where appropriate.
		Step 12: Identify possible 'next steps' to respond to findings. Step 13: Discuss feedback and possible next steps with the Board.
Q2 2024	Q2 2023	Step 14: Prepare feedback statement, discuss with the Board and publish feedback statement.

Question for Board members

Q4: Do Board members have any comments on the proposed project timeline and milestones?

Appendix: AASB 1059 requirements and implementation issues

- A1. This Appendix provides a high-level overview of:
- (a) the Board's rationale for issuing AASB 1059;
 - (b) key requirements of AASB 1059;
 - (c) the implementation issues staff have noted through discussions with stakeholders regarding the scope of AASB 1059 and its recognition and measurement requirements; and
 - (d) the Board's process in developing AASB 1059, including subsequent amendments to assist with its implementation.

The Board's rationale for issuing AASB 1059

- A2. It is common, as a means of developing and delivering infrastructure and other assets for public services, for a public sector entity to enter into an arrangement where 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.³ In exchange for the assets and services, the grantor makes payments to the operator and/or grants the operator a right to charge beneficiaries of the services (e.g. a right to collect tolls from drivers using a road).
- A3. AASB Interpretation 12 *Service Concession Arrangements*, which aligns with 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 the statement of financial position.
- A4. 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. When 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 recognise the assets either, in accordance with Interpretation 12.
- A5. Given the significance of this type of arrangement to the Australian economy, and that recognition of assets and related liabilities is important in assisting users of financial statements to understand the resources and obligations of a grantor involved in the provision of public services, the Board decided to issue AASB 1059 to address the divergence (AASB 1059, paragraph BC5). An extensive Basis for Conclusions accompanies AASB 1059.

3 This type of arrangement is colloquially referred to as public-private partnerships (PPPs) or build-own-operate-transfer (BOOT) arrangements. However, not all PPPs or BOOT arrangements are in 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.

Key requirements of AASB 1059

Initial recognition

- A6. If the control criteria in AASB 1059 paragraphs 5 and 6 are met, AASB 1059 paragraphs 11 and 12 require that, on initial recognition, a grantor recognises:
- (a) a service concession asset measured at fair value using the cost approach in AASB 13 *Fair Value Measurement* (i.e. measured at the asset's current replacement cost); and
 - (b) a corresponding liability (subject to the adjustments described in paragraph A10 below).
- A7. The nature of the liability could be any of the following:
- (a) a financial liability – where the grantor has a contractual obligation to deliver cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset; or
 - (b) a grant of a right to the operator (GORTO) – by granting a right to the operator to earn revenue from third-party users of the service concession asset. This is akin to unearned revenue for receiving the asset provided by the operator; or
 - (c) a combination of a financial liability and a GORTO liability (arising under “hybrid” arrangements).
- A8. The grantor is required to reclassify any existing assets that form part of the service concession arrangement and remain controlled by the grantor as a service concession asset and measure those assets at their current replacement cost.
- A9. Any internally generated intangible assets that do not qualify for recognition under AASB 138 *Intangible Assets* but meet the criteria in AASB 1059 are recognised as a service concession asset and measured at current replacement cost.
- A10. The initial measurement of the liability associated with a service concession arrangement should be measured at the same amount as the current replacement cost of the service concession asset, adjusted by:
- (a) excluding the amount for any existing asset of the grantor reclassified as a service concession asset;
 - (b) excluding any consideration from the grantor to the operator; and
 - (c) including any consideration from the operator to the grantor.

Subsequent measurement

- A11. Subsequent measurement of the service concession asset is in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138, as appropriate.
- A12. Subsequent measurement of any financial liability is in accordance with AASB 9 *Financial Instruments*. The grantor recognises income as the GORTO liability amortises based on the economic substance of the arrangement.

Implementation issues

Issues related to the scope of AASB 1059

Issue 1: What services are considered ‘public services’

A13. A service concession arrangement is defined in AASB 1059 as an arrangement that involves an asset being used to provide public services. ‘Public services’ is not defined in AASB 1059.

A contract effective during the reporting period between a grantor and an operator in which (a) the operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time ...

[AASB 1059 Appendix A, emphasis added]

A14. Some stakeholders have commented that it is unclear which services are considered ‘public services’ in order to determine whether an arrangement is in the scope of AASB 1059. The Board considered defining the term when finalising AASB 1059 and decided to include guidance rather than a specific definition due to interpretative issues (see AASB 1059 paragraph BC18).

Issue 2: Whether a secondary asset should be in the scope of AASB 1059

A15. A secondary asset is referred to in AASB 1059 as an asset that is not primarily providing public services, but is used or mainly used to complement another asset (the primary asset) that is providing public services.

If an arrangement provides public services principally through a primary asset, and a secondary asset is used or is mainly used to complement the primary asset, such as student accommodation for a public university, the secondary asset would be regarded as providing public services as well. As another example, a hospital car park constructed by an operator as part of the arrangement to construct a hospital that largely provides public services would be considered part of the hospital service concession arrangement. The car park may provide limited ancillary services without affecting the assessment that the car park is used to provide public services. However, if the car park was not constructed as part of the hospital service concession arrangement (eg subsequent to the construction of the hospital or with a different party) and is largely of a commercial nature (eg car parking is available to the general public, including hospital patrons), the car park would be regarded as an asset that does not provide public services, and therefore outside the scope of this Standard.

[AASB 1059 paragraph B7, emphasis added]

A16. **Issue 2A:** Stakeholders have commented that more guidance is needed to determine whether a secondary asset is “largely providing public services” or “largely of a commercial nature” for the purpose of determining whether it should be accounted for under AASB 1059.

A17. **Issue 2B:** Stakeholders have commented that clarification is needed regarding whether a secondary asset that is largely providing public services would be in the scope of AASB 1059 if the primary asset to which the secondary asset complements is not in the scope of AASB 1059.

A18. **Issue 2C:** Some stakeholders wanted clarification about the car park example in the last sentence of AASB 1059 paragraph B7 – that the car park would be regarded as outside the scope of AASB 1059 if it was not constructed as part of the hospital service concession arrangement and is largely of a commercial nature. Those stakeholders wanted to know whether a secondary asset is in the scope of AASB 1059 if the secondary asset is not constructed as part of the primary asset’s service concession arrangement, but it is largely providing public services rather than services of a commercial nature.

Issue 3: More guidance is needed to determine whether a grantor controls the service concession asset

The grantor shall recognise an asset provided by the operator ... as a service concession asset if the grantor controls the asset. 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.

[AASB 1059 paragraph 5, emphasis added]

Control or regulation of the pricing of the services ... For example, for the purpose of paragraph 5(a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, or by a third-party regulator (eg by a capping mechanism)

[AASB 1059 paragraph B20, emphasis added]

For the purpose of paragraph 5(b), the grantor's control over any significant residual interest would both restrict the operator's practical ability to sell or pledge the asset ...

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 (eg 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.

[AASB 1059 paragraph B33, emphasis added]

A19. **Issue 3A:** Some stakeholders commented that too much judgement is involved in determining whether a grantor controls a service concession asset. They request more guidance to assist public sector entities 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 in the scope of AASB 1059.

A20. **Issue 3B:** Some stakeholders 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.

Issue 4: Costs and benefits of scoping in public-to-public arrangements

The scope of this Standard does not explicitly state whether the operator should be a public or private sector entity. This contrasts with AASB Interpretation 12, which states that the Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements (paragraph 4).

[AASB 1059 paragraph BC129]

A21. Some stakeholders have commented that there are many public-to-public transactions between entities within a group that would satisfy the recognition criteria in AASB 1059. Those arrangements would be eliminated on consolidation either in the departmental consolidated financial statements or in the Whole of Government financial statements (that is, the asset would be considered property, plant and equipment of the group rather than a service concession asset).

A22. Those stakeholders consider the benefits would not outweigh the costs of requiring intra-group transactions to be accounted for under AASB 1059 if they were only to be reversed on consolidation. They argue that it is costly to:

- (a) assess whether each intra-group public-to-public arrangement would be in the scope of AASB 1059, due to the magnitude and complexity of intra-group transactions; and
- (b) remeasure an asset's fair value at its current replacement cost when the asset's fair value was previously measured using another valuation technique (also see Issue 6 below).

Issues related to recognition and measurement

Issue 5: Recognition and measurement of asset under construction

A23. As noted in paragraph A6 above, on initial recognition a grantor is required to recognise:

- (a) a service concession asset measured at its current replacement cost; and
- (b) a corresponding liability (subject to some adjustments, as noted).

A24. **Issue 5A:** Some stakeholders commented that initially recognising an asset under construction (a work-in-progress asset) can result in anomalous outcomes when the grantor's contractual obligation associated with a related financial liability measured under AASB 9 is greater than the current replacement cost of an asset under construction. In this situation, the financial liability measured under AASB 9 would be greater than the value of the partly-constructed service concession asset, resulting in a negative impact on the statement of financial position.

A25. **Issue 5B:** AASB 1059 does not specify, upon the completion of the construction of the service concession asset, whether (and if so, how) the liability is required to be adjusted to reflect the same amount as the current replacement cost of the completed service concession asset. This issue mainly concerns transactions involving a GORTO liability (or hybrid transactions). If the GORTO liability is not adjusted to reflect the current replacement cost of the completed asset, the subsequent income recognition (as the GORTO liability amortises) would likely be significantly lower than the depreciation of the asset, resulting in an anomalous financial result.

Issue 6: Mandating the use of the cost approach in measuring the fair value of the service concession asset

After initial recognition or reclassification, the grantor shall account for a service concession asset ...

- (b) references to fair value in other Standards shall be read as references to current replacement cost for service concession assets. For example, this means that current replacement cost is the basis for fair value measurement of service concession assets under a revaluation model. Furthermore, the active market requirements in AASB 138 for the revaluation of an intangible asset shall not apply.

[AASB 1059 paragraph 9, emphasis added]

A26. Some stakeholders disagree with the mandatory use of the cost approach in measuring the fair value of the service concession asset, particularly where the asset has previously been measured at fair value using the income approach. Those stakeholders are of the view that the use of the income approach, where appropriate, uses more observable inputs than the cost approach and should be permitted to be used as a basis for estimating a service concession asset's fair value.

A27. Some stakeholders have observed significant anomalous outcomes when measuring the fair value of a previously unrecognised internally generated intangible asset at its current replacement cost. For example, when measuring the fair value of a database at its current replacement cost, the fair value may have increased significantly compared to the prior period

due to the increase in the number of data items added to the database, resulting in an increase in the estimated costs required to replace the information in the database. However, if the income approach was to be applied, it is unlikely that the fair value of the database would have changed significantly because the cash generating ability of the database might not have increased significantly.

A28. Staff note that paragraph 70.4 of the International Valuation Standard IVS 210 *Intangible Assets* stipulates that the cost approach should only be applied to measure the fair value of an intangible asset if other approaches are unable to be applied. It states that “The cost approach *may* be used when no other approach is able to be applied; however, a valuer should attempt to identify an alternative method before applying the cost approach in situations where the subject asset does not meet the criteria in paras 60.2 and 60.3 of IVS 105 *Valuation Approaches and Methods*.” Paragraphs 60.2 and 60.3 of IVS 105 describe the circumstances where the cost approach should be applied.

Issue 7: Whether borrowing costs should be included in the current replacement cost of a service concession asset

A29. Stakeholders have requested the Board to clarify whether borrowing costs should be included in the current replacement cost of a service concession asset. Those stakeholders observed that the Illustrative Examples in AASB 1059 include an example where borrowing costs are included, but neither AASB 1059 nor AASB 13 specifies whether borrowing costs should be included in an asset’s current replacement cost.

A30. Staff note that this issue has been considered in the Board’s Fair Value Measurement for Not-for-Profit Entities project. In developing Exposure Draft ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* (March 2022), the Board decided not to propose adding specific guidance on borrowing costs for not-for-profit entities to AASB 13 since it does not provide such guidance for for-profit entities. The issue is not specific to not-for-profit entities.

Other observation: Government Finance Statistics (GFS) divergence

A31. The ABS has informed staff that when analysing service concession arrangement data, in many cases it would reverse the AASB 1059 accounting treatment and treat the service concession asset as an asset belonging to the operator rather than the grantor. This is because GFS has a different definition of asset control compared with the control criteria in AASB 1059, paragraph 5.

The Board’s process in developing AASB 1059

AASB 1059 based on IPSAS 32

A32. The Board developed AASB 1059 using IPSAS 32 *Service Concession Arrangements: Grantor* as a starting point. The key changes the Board made to the recognition and measurement requirements in IPSAS 32 in finalising AASB 1059 are summarised below.

Recognition of service concession assets

AASB 1059	IPSAS 32
AASB 1059 requires an existing asset of the grantor, including previously unrecognised identifiable intangible assets or land under roads, to be reclassified as a service concession asset.	IPSAS 32 does not permit the recognition of previously unrecognised identifiable intangible assets or land under roads.

- A33. In respect of previously unrecognised intangible assets, the Board took the view that a service concession arrangement represents a transaction with an external party that identifies and values all identifiable assets involved in the arrangement. Therefore, with the exception of goodwill, the accounting should be similar to that for business combinations under AASB 3 *Business Combinations*, in which all assets and liabilities acquired are recognised, including those not previously recognised by the acquiree. Consequently, the Board decided that intangible assets encompassed by a service concession arrangement should be recognised by the grantor and be measured consistently with tangible service concession assets, at their current replacement cost. [AASB 1059 paragraph BC40]
- A34. In respect of land under roads, the Board decided that grantors should also be required to recognise land under roads as service concession assets to be consistent with the view that a grantor is to recognise previously unrecognised identifiable intangible assets that are controlled by the grantor as service concession assets. [AASB 1059 paragraph BC45]

Measurement of service concession assets

AASB 1059	IPSAS 32
AASB 1059 requires the grantor to initially measure the service concession asset at fair value using the cost approach in AASB 13 (i.e. at the asset’s current replacement cost).	IPSAS 32 specifies measurement of fair value generally without mandating a particular measurement technique to apply.

- A35. The Board took the view that the service potential of a service concession asset under an arrangement involving the financial liability model and the service potential of an identical asset involving the GORTO model is the same from the grantor’s perspective, as both assets will provide the same utility to the public. The fair value of these assets should therefore be measured consistently.
- A36. Measuring the asset’s current replacement cost would result in the same value under both the financial liability model and the GORTO model. This is because the cost required to replace the asset is not affected by the grantor having granted the operator the right to charge users and therefore not receiving future cash flows arising from the asset. The Board concluded that it is appropriate to initially measure service concession assets at fair value using only current replacement cost under the cost approach to fair value. [AASB 1059 paragraphs BC64–BC67]

Recognition of liabilities

AASB 1059	IPSAS 32
AASB 1059 requires the grantor to recognise a financial liability when the grantor has a contractual obligation to pay cash to the operator for third-party usage of a service concession asset, with or without guaranteeing a minimum amount to the operator.	IPSAS 32 requires the grantor to recognise a financial liability only if it has guaranteed to pay the operator a specified or determinable amount; otherwise, the grantor is required to account for the payments as an expense when paid.

- A37. The IPSASB concluded that in cases where the grantor pays the operator solely for the usage of a service concession asset by third-party users, such payment is compensation for the usage of the asset and not for the acquisition of the service concession asset received from the operator. Therefore, under IPSAS 32, such payments are not recognised as a liability at the commencement of the arrangement but instead are recognised as an expense when paid. [IPSAS 32 paragraph AG49]
- A38. The Board disagreed with the IPSASB’s view. The Board considered that the grantor is not able to avoid the payments as it cannot control the usage of the service concession asset by third

parties. The amounts payable by the grantor to the operator are contingent upon the level of third-party usage of the service concession asset. The Board noted that paragraph 25 of AASB 132 *Financial Instruments: Presentation* affirms the view that a grantor may have a contractual obligation in the form of a financial liability when the amounts are not specified or determinable at inception but are contingent on the occurrence or non-occurrence of uncertain future events. [AASB 1059 paragraph BC73]

The due process in developing AASB 1059

- A39. To develop Australian requirements for service concession arrangements, the Board issued Exposure Draft ED 261 *Service Concession Arrangements: Grantor* in May 2015, after contributing to the IPSASB's development of IPSAS 32 over a long period. The Board also issued a Fatal-Flaw Review (FFR) Draft Standard in February 2017 for public comment. AASB 1059 was finalised by the Board in July 2017.
- A40. All respondents to ED 261 and the FFR Draft Standard were supportive of having an Australian Accounting Standard that would provide a consistent approach to the accounting for service concession arrangements by public sector grantors.
- A41. Topics on which respondents to ED 261 requested additional guidance and examples were:
- (a) the concept of control;
 - (b) fair value measurement of service concession assets and liabilities; and
 - (c) accounting for the arrangements when transitioning to the Standard.
- A42. Some respondents to the FFR Draft Standard had concerns over:
- (a) a grantor recognising as a service concession asset an intangible asset that the grantor had not previously recognised;
 - (b) the proposed guidance on public services;
 - (c) the approach to determining the grantor's control or regulation of the pricing of the services of a service concession asset; and
 - (d) recognising a service concession arrangement that involves the grant of a right to the operator.
- A43. The Board added additional guidance and explanation in finalising AASB 1059 to address the key concerns raised by the respondents to ED 261 and the FFR Draft Standard. However, based on Issues 1–7 noted above, some stakeholders would like further guidance or revised requirements in AASB 1059.
- A44. When developing AASB 1059, the Board noted that issues regarding fair value measurement of service concession assets would be addressed separately. The Board has recently issued ED 320 to propose adding authoritative implementation guidance to AASB 13 for application by not-for-profit (NFP) public sector entities. When finalised, that guidance is expected to assist NFP public sector entities in measuring the fair value of non-financial assets not held primarily for their ability to generate net cash inflows, which includes service concession assets.

Amendments made subsequently to AASB 1059

- A45. As jurisdictions started to implement AASB 1059, the Board undertook standard-setting activities in 2019 and 2021 to address a number of issues that they raised regarding the modified retrospective transition method set out in paragraph C4 of AASB 1059. That method permitted retrospective application of the Standard by the grantor recognising and measuring service concession assets and related liabilities at the date of initial application, rather than the full retrospective approach in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

- A46. Following the issue of a Fatal-Flaw Review Draft of proposed amendments in June 2019 for public comment, the Board issued *AASB 2019-2 Amendments to Australian Accounting Standards – Implementation of AASB 1059* (September 2019) to amend the modified retrospective transition method as follows:
- (a) specify the financial liability should be recognised at fair value at the date of initial application of AASB 1059;
 - (b) initially measure the GORTO liability representing the unearned portion of any revenue arising from the receipt of a service concession asset based on the current replacement cost of the service concession asset at the date of initial application, adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the service concession asset; and
 - (c) measure a liability representing any third-party unearned revenue arising from the receipt of additional consideration from the operator for access to an existing asset of the grantor that had been reclassified as a service concession asset at the proceeds received, adjusted to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement.
- A47. In June 2021, the Board issued *AASB 2021-4 Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors* to further amend the modified retrospective transition method in AASB 1059, following further representations from stakeholders. The Board had issued a Fatal-Flaw Review Draft of the proposed amendments in May 2021 for public comment.
- A48. AASB 2021-4 changed the modified retrospective transition method for measuring the GORTO liability so that the GORTO liability is initially measured based on the fair value (current replacement cost) of the service concession asset at the date of initial application, adjusted by:
- (a) deducting the carrying amount of any consideration transferred by the grantor to the operator recognised as an asset;
 - (b) adjusting the resulting amount to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement; and then
 - (c) deducting any outstanding related financial liabilities.
- A49. AASB 2021-4 applies to periods ending on or after 30 June 2021 and therefore covered the first financial year of mandatory application of AASB 1059 for Australian public sector entities.