



Project:	AASB 1059 <i>Service Concession Arrangements: Grantors</i>	Meeting:	M167 (September 2018)
Topic:	Request for extending the application date of AASB 1059	Agenda Item:	11.1
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		Decision-Making:	High

Objective of this paper

- 1 The objective of this paper is to facilitate the Board's consideration of the request from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) to extend the application date of AASB 1059 *Service Concession Arrangements: Grantors* and decide how to proceed.

Attachment

- 11.2 Letter from HoTARAC dated 2 August 2018

Structure

- 2 This staff paper is set out as follows:
 - (a) Background (paragraphs 3-6)
 - (b) Reasons provided in HoTARAC's letter and staff's analysis (paragraph 7)
 - (c) Staff consideration (paragraphs 8-15)
 - (d) Staff view and recommendation (paragraphs 16-22)
 - (e) Previous decisions made by the Board ([Appendix A](#))
 - (f) Impact of deferring the operative date on other Standards ([Appendix B](#))
 - (g) Summary of key differences between ED 261 proposals and AASB 1059 requirements ([Appendix C](#))

Background

- 3 AASB 1059 was issued in July 2017, and applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. For entities with a 30 June reporting date, this effectively means the Standard would not need to be first applied until the annual reporting year ending 30 June 2020. Although this seems a long way away, practical factors might also need to be considered, such as the need to prepare comparative information, interim reporting issues and government budget cycles since AASB 1059 applies to public sector entities.
- 4 HoTARAC submitted a letter on 2 August 2018 requesting the Board consider extending the mandatory application date for a further 12 months (ie to annual reporting periods beginning on or after 1 January 2020). The nature of the request is broadly consistent with the comments HoTARAC originally made when commenting on the proposed operative date in the related Exposure Draft (ED 261 *Service Concession Arrangements: Grantors*) that resulted in AASB 1059, as well as its previous letter to the AASB dated 15 July 2016 (see paragraph 5 below).
- 5 HoTARAC had sent a letter on 15 July 2016 requesting the Board consider extending the mandatory application dates to 1 January 2019 on the following then new/coming Standards:
- *AASB 15 Revenue from Contracts with Customers* (incorporating the then yet to be issued guidance for NFP entities)
 - *Income of Not-for-Profit Entities* (then at ED stage, which subsequently became AASB 1058)
 - *Service Concession Arrangements for Grantors* (then at ED stage, which subsequently became AASB 1059)
- 6 The Board considered HoTARAC's 15 July 2016 request and, in the December 2016 Board meeting, decided to further defer the application date of AASB 15 for not-for-profit entities to 1 January 2019 to align with AASB 1058. In addition, the Board decided the application date of AASB 1059 should also be 1 January 2019, on the basis that the Standard was then targeted for issue in the first quarter of 2017 (which, consistent with HoTARAC's 15 July 2016 request, would have effectively provided more than two years for implementing AASB 1059 for entities that have a 30 June reporting date).

Reasons given for the request

- 7 The table below summarises HoTARAC's reasons given in its 2 August 2018 letter for requesting an extension (to 1 January 2020) and staff analysis of those reasons.

HoTARAC's reasons	Staff analysis
<p>Reason 1: Shorter implementation timeframe than other Standards</p> <p>AASB 1059 was not issued until July 2017, seven months later than other new standards that have the mandatory application date of 1 January 2019.</p>	<p>Other standards that have a mandatory application date of 1 January 2019 are:</p> <ul style="list-style-type: none">• AASB 15, which was issued in December 2014 with an original effective date of 1 January 2017. In October 2015, the effective date was deferred to 1 January 2018 as a result of the deferral by the IASB of the effective date of IFRS 15 <i>Revenue from Contracts with Customers</i>¹. In

¹ AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*

HoTARAC's reasons	Staff analysis
	<p>December 2016, the effective date for not-for-profit entities was further deferred to 1 January 2019 to align with the application date of AASB 1058 ².</p> <ul style="list-style-type: none"> • AASB 1058 was issued in December 2016. • AASB 16 <i>Leases</i> was issued in February 2016. <p>Staff confirm HoTARAC's observation that AASB 1059 was issued seven months later than AASB 1058.</p> <p>Staff acknowledge HoTARAC's concern, raised in its comments on ED 261 and its 15 July 2016 letter, that public sector entities will need to implement the abovementioned Standards a year earlier than the operative date to reflect their impact in the 2019-20 budget that will be published in 2019. This effectively means that entities have less than two years to implement AASB 1059.</p>
<p>Reason 2: Technical challenges</p> <p>As AASB 1059 is specific to Australia and to the public sector, the concepts and impacts are not as well understood compared with other accounting standards by preparers and other stakeholders, including credit rating agencies.</p>	<p>Staff acknowledge AASB 1059 is likely to present technical challenges for stakeholders, which was also mentioned in HoTARAC's 15 July 2016 letter.</p> <p>The comment by HoTARAC raises the question of whether it is reasonable for the Board to expect constituents start planning their implementation of a Standard before it is issued. Given the project on Service Concession Arrangements (SCAs) commenced in 2012; agenda papers, project updates and due process documents were available publicly; and extensive outreach and engagement with stakeholders throughout the project, it is arguable that stakeholders have had ample opportunity to consider and address the technical challenges noted by HoTARAC.</p> <p>The counter-argument is of course that it is not efficient for stakeholders to pre-empt the outcome of a Board project as Board decisions can change substantially between ED and Standard (and indeed from meeting to meeting).</p> <p>If this counter-argument is accepted, the question then becomes whether the time between the issue of AASB 1059 (July 2017) and its operative date, considering the need to</p>

² AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*

HoTARAC's reasons	Staff analysis
	<p>prepare budgets in 2019, is a reasonable length of time for the technical challenges to be met. The answer to this question needs to be considered in the context of the due process the Board undertook in determining the operative date, which is considered in paragraphs 8-10 below.</p> <p>In terms of credit rating agencies, see staff analysis in relation to Reason 4 below.</p>
<p>Reason 3: Practical challenges in obtaining historical data</p> <p>Agencies often have limited access to service concession assets operated by the private sector partner and information about these assets.</p> <p>The modified retrospective approach in AASB 1059 is a simpler transition method not requiring historical data. However, this approach, in some instances, results in a significantly lower grant of right liability at transition compared to the asset. This will happen especially in arrangements that are in the early stages of concession. Consequently, public sector grantors are more likely to consider the full retrospective approach, which requires historical data.</p>	<p>Staff acknowledge the practical challenges, which were also mentioned in HoTARAC's response to ED 261 and in its letter dated 15 July 2016, but again note the alternative view mentioned above in relation to Reason 2 on whether it is reasonable to expect stakeholders to begin addressing those challenges early in the implementation process.</p> <p>In relation to the particular issue raised by HoTARAC about the alternative transition approaches, staff note those alternative approaches were originally proposed in the ED, which arguably provided stakeholders enough time to consider their implications.</p>
<p>Reason 4: Stakeholders require more time to formulate approach to AASB 1059</p> <p>Stakeholders, such as ABS and credit rating agencies, are still formulating an appropriate approach to AASB 1059 to suit their respective objectives. The control approach of AASB 1059 is different from the 'risks and rewards' approach used by the ABS. HoTARAC members will need to liaise with the ABS to evaluate the impact on GFS and AASB 1049.</p> <p>These challenges are further magnified by the lack of points of reference for the changes, given this is a new Standard and there is no uniform accounting policy present.</p>	<p>Consistent with our comments above, staff note the view that it is reasonable to expect stakeholders would have had sufficient time by now to formulate their approach, given the fact the SCA project commenced in 2012³.</p> <p>In addition, the stakeholders mentioned by HoTARAC have not raised concerns about the operative date directly with the AASB. Furthermore, staff recently met with two leading credit rating agencies' representatives who specialise in rating governments. These users of public sector reporting indicated that SCAs are not a key area of focus for them as they are not significant at the total state level. They mentioned that service concession assets and liabilities are deducted from their financial matrix calculations as their focus is on cash</p>

³ In the July 2012 Board meeting, the Board decided to issue an Australian accounting standard base on IPSAS 32 *Service Concession Arrangements: Grantors*, which was issued in October 2011.

HoTARAC's reasons	Staff analysis
	<p>flows rather than the value of assets and liabilities recognised on balance sheets.</p> <p>One representative acknowledged that AASB 1059 is specific to Australia and that they have not considered whether their global credit rating calculations need to be adapted to reflect SCAs; however, it is expected that there will be some impact on the financial matrix but the global methodology and ratio calculations are not expected to be impacted.</p>

Staff consideration

Previous decisions made by the Board

- 8 When drafting ED 261, which was issued in May 2015, the original application date was proposed to be for annual reporting periods beginning 1 January 2017, to align with the effective date of AASB 15 (this was before the IASB issued amendments to defer the effective date of IFRS 15 to 1 January 2018). At that time, the Board expected to issue the Standard in October 2016⁴ (which would have resulted in a lag time between issue and operation of about 21 months for entities with a 30 June 2018 reporting date).
- 9 In the December 2016 Board meeting, presumably with the expectation the Standard would be issued in the first quarter of 2017, the Board decided that AASB 1059 should have an application date of 1 January 2019. Staff have extracted some factors considered by the Board pertinent to this decision in [Appendix A](#).
- 10 In relation to the Board's basis for adopting the operative date, paragraph BC108 of AASB 1059 states:
- “The Board noted that ED 261 had proposed an effective date of annual reporting periods beginning on or after 1 January 2017, which was no longer feasible. The Board decided the effective date of the Standard should be annual reporting periods beginning on or after 1 January 2019, on the basis that that date would:
- (a) effectively provide two years, from the issue date, for implementing the Standard for entities that have a 30 June reporting date. This aligns with constituents' comments that this Standard will need a significant amount of time to implement; and
 - (b) align with the effective date of AASB 15 and AASB 1058 *Income of Not-for-Profit Entities*, which this Standard cross-references (see paragraph 27). Although the effective date of this Standard need not align with those Standards, the Board considered having the same effective date would assist grantors in the overall implementation of the Standards.”

⁴ In the September 2015 Board meeting (M147) the Board approved the draft project plan (Agenda Paper 6.3) of issuing the Standard in September/October 2016.

- 11 However, it transpired that AASB 1059 was not issued in the first quarter of 2017. As noted above, its issue was delayed until the third quarter. In light of these circumstances, staff (for the reasons explained below under staff view) acknowledge that a case can be made for deferring the operative date as requested by HoTARAC.

Impact on other Standards

- 12 Staff have analysed the expected impact of deferring the application date of AASB 1059 would have on other Standards (see [Appendix B](#)). Based on the Appendix staff have formed the view that deferral would not be expected to have a significant impact on other Standards.

Changes between ED 261 and AASB 1059

- 13 Staff considered the key differences between ED 261's proposals and AASB 1059's requirements (see [Appendix C](#)). This is on the basis that if the differences are significant, the Board might not have been informed by ED respondents about potential implementation issues at the time it made its operative date decision. Based on the Appendix staff have formed the view that, of themselves, the differences would not justify a deferral of the operative date.

AASB Policies

- 14 Paragraph 32 of the *AASB's Policies and Processes (2011)* states: "When determining the effective date of Standards the AASB seeks to ensure that constituents have adequate time to prepare for their implementation. In normal circumstances the AASB will issue a Standard a significant time before its effective date, say, during the previous annual reporting period and generally permits entities to apply those requirements early should they wish to do so."
- 15 Deferral of the application date in the particular circumstances described by HoTARAC would arguably not be inconsistent with *The AASB's Not-for-Profit Entity Standard-Setting Framework*⁵. The issue being brought to the Board's attention in the manner that it has is consistent with paragraph 24(d) of the Framework, which states "The AASB considers the need for NFP-specific ... amendments ... when ... Australian constituents raise the need with the AASB (via ... written ... submissions)". Although the Framework does not specifically refer to justifiable circumstances in which the Board might grant a request to defer an application date of a NFP-specific Standard, some of the listed circumstances when the Board might regard a NFP-specific Standard is justified, identified in paragraph 28 of the Framework, are arguably present in relation to the current HoTARAC request. In particular:
- (a) paragraph 28(b)⁶ states that a justifiable circumstance may include "user information needs not addressed ...". Given the technical and practical challenges mentioned by HoTARAC, there is a risk that amounts recognised under the time pressure of the current application date may not be reliable nor robust enough for users, and therefore user information needs would not be addressed. Deferring the application date would be expected to mitigate this concern.
 - (b) paragraph 28(c) states that a justifiable circumstance may include "NFP application issues resulting from ... current practice issues ...". Again, the practical challenges mentioned by HoTARAC arguably justify a deferral of the operative date to provide adequate time for preparers to address them, particularly in the context of the budget cycle.

⁵ http://www.aasb.gov.au/admin/file/content102/c3/AASB_NFP_StdSetting_Fwk_final.pdf

⁶ There are two (b) sub-paragraphs in paragraph 28 of the Framework – the reference here is to the first (b).

- (c) Paragraph 28(d) states that a justifiable circumstance may include “undue cost or effort of preparing and disclosing information outweigh the benefits”. Arguably, consistent with HoTARAC’s comments, preparers would incur undue cost or effort relative to the benefits users would gain, compared with deferring the operative date by 12 months.

Staff view and recommendation

- 16 In normal circumstances, given the Board has gone through a due process in setting an operative date for a Standard, staff do not think it would be appropriate to provide an extension unless there are unforeseen circumstances. That being said, staff note there is precedent for the Board providing extensions in the not-for-profit public sector context – for example deferral of the requirement to recognise land under roads (first from 31 December 2002 to 31 December 2006, then further deferred to 31 December 2007⁷) and deferral of the requirement to recognise defence weapons platforms at fair value (from 1 July 2012 to 1 July 2014⁸).
- 17 Staff acknowledge that stakeholders might not have commenced their considerations of the implications of AASB 1059 soon enough and are now faced with practicability issues that means they are not in a position to reflect the impact of AASB 1059 in the 2019-20 budget or comply with the Standard by the operative date. Accordingly, staff reluctantly accept the need for an extension in this case as we would otherwise be concerned that the amounts recognised may not be reliable nor robust enough for users to rely on.
- 18 Staff also note that HoTARAC’s 2 August 2018 letter seems to express a consensus view from all preparers affected by the requirements and suggests the views of some other stakeholders (ABS, rating agencies). Therefore, a decision to defer is not expected to risk disenfranchising those who have been making the effort to implement AASB 1059. However, there are other stakeholders not mentioned by HoTARAC who could be affected, including auditors and other users. Therefore, the Board should expose for public comment, any proposal to defer the application date of AASB 1059.
- 19 If the Board decides to go ahead with a proposal to grant the extension, staff believe the Board should convey/reinforce the message to constituents, perhaps through the basis for conclusions, that the Board’s due process provides an opportunity for stakeholders to start thinking about implementation issues so they are in a position to implement the Standard by the operative date. The Board only contemplates extensions where there are demonstrable unforeseen circumstances. Staff acknowledge the argument that it is not efficient to start such a process given that draft accounting requirements are subject to change up until a Standard is finally issued; however, those who monitor the project would be able to form judgements about that likelihood given the openness of the Board’s processes.

Next steps

- 20 Paragraph 50 of the *AASB’s Policies and Processes* (2011) states: “The extent of the due process undertaken by the AASB and the length of the comment period provided for constituents is a matter of judgement and is influenced by the nature and significance of the proposals and their impact on current practice...”
- 21 Given AASB 1059 only applies to public sector grantors of SCAs, who have requested the extension through HoTARAC, and the proposal has no impact on the technical aspect of the Standard, staff

⁷ In 1999 the Board extended the expiry date of the transitional provisions of the recognition of land under roads from 31 December 2002 to 31 December 2006, and in 2006 further deferred it to 31 December 2007 (AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A*).

⁸ September 2012 Board meeting (M126)

consider that the proposal to defer the application date of AASB 1059 needs to be exposed for public comment but with a short comment period of 30 days (ie 1 month).

22 The table below provides a draft timeframe of the due process.

Date/meeting	Task
17 September 2018	Delegate approval of ED to Chair given non-technical nature of the ED
18 September 2018	Issue ED for comments with 30 days comment period (comments due 17 October 2018)
17 – 30 October 2018	Staff to collate comments and prepare ballot draft Amending Standard to be included in 1 st mail-out of November Board meeting
13-14 November 2018 (Board meeting)	Board to consider comments on ED and vote on ballot draft Amending Standard at meeting if no significant issues raised
19 November 2018	Final Standard issued

Question to the Board:

Q1: Does the Board agree to extend the mandatory application date of AASB 1059 to 1 January 2020?

Q2: Does the Board agree with staff's proposed next steps in paragraphs 20-22?

APPENDIX A

Previous decisions made by the Board

In the December 2016 Board meeting, the Board decided that AASB 1059 should have an application date of 1 January 2019. The following factors pertinent to this decision have been extracted from the December 2016 agenda papers considered by the Board⁹:

- respondents noted in their comments on ED 261 that the proposals will need a significant amount of time to implement and will require the review of contracts for existing service concession arrangements and systems changes to capture the required information. Some constituents did not support the proposed application date of annual reporting periods beginning 1 January 2017 and preferred a later application date with early adoption permitted.
- some constituents expressed the view that the proposals need not have an effective date that is the same as AASB 15, which was 1 January 2018 at the time. However, constituents would prefer to have a later mandatory application date than 1 January 2017 with early adoption permitted, especially for those entities that would choose to apply the Standard under the full retrospective method.
- HoTARAC, in its letter to the AASB dated 15 July 2016, when it presumed the Standard would be issued at the end of 2016, recommended “a deferral of the application date by at least a further 24 months” (ie from 1 January 2017 to 1 January 2019), as “implementing the proposed standard and associated guidance will require substantial time and resources”.
- AASB staff, in the December 2016 Board meeting, assuming the Standard would be issued in the first quarter of 2017, expressed the view that the deferral of the effective date of AASB 1059 to annual reporting periods beginning 1 January 2019 would provide stakeholders with enough implementation time on the basis that:
 - AASB 1059 was by then targeted for issue in the first quarter of 2017 and the proposed effective date would provide more than two years for implementing the proposed Standard for entities that have a 30 June reporting date. This would align with respondents’ requests; and
 - AASB 1059 would also then have the same effective date as AASB 15 and AASB 1058. AASB 1059 cross-references AASB 15 and AASB 1058 for accounting for ‘other revenues’. While the effective date of AASB 1059 need not align with the revenue Standards, it would assist grantors in the overall implementation if the effective dates are the same.

⁹ M155 Agenda Paper 3.1 – Issue 3

Appendix B

Impact of deferring the operative date of AASB 1059 on other Standards

The table below includes analysis of the impact on other Standards if the application date of AASB 1059 were to be deferred.

AASB standard	Expected impact
<p>AASB 16 Leases</p> <p>Paragraph Aus3.1 of AASB 16 states that AASB 16 does not apply to service concession assets recognised in accordance with AASB 1059.</p>	<p>Moderate impact</p> <p>AASB 16 has a mandatory application date of 1 January 2019, and entities will need to assess their arrangements to identify and recognise leases under AASB 16 at that date.</p> <p>There is a possibility that an arrangement meets the definition of both a lease under AASB 16 and SCA under AASB 1059, in which case AASB 1059 would apply once it becomes operative. Therefore, if AASB 1059 is deferred, entities may need to reassess some of their arrangements and reclassify leases as SCAs from one year to the next.</p> <p>However, staff note that entities would be able to choose to early adopt AASB 1059 to avoid duplicating work involved in identifying leases and SCAs.</p>
<p>AASB 138 Intangible Assets</p> <p>Paragraph Aus3.1 states that AASB 138 does not apply to intangible assets recognised as service concession assets in accordance with AASB 1059.</p>	<p>Minimal impact</p> <p>Existing grantors that have intangible assets arising from SCAs would continue to apply AASB 138 (which might mean they continue to not recognise these assets) until AASB 1059 becomes operative.</p> <p>New grantors that have not previously recognised intangible assets arising from SCAs would have the option to early adopt AASB 1059.</p>
<p>AASB 1051 Land Under Roads</p> <p>Paragraph 7 states that AASB 1051 does not apply to land under roads that is a service concession asset in accordance with AASB 1059.</p>	<p>Minimal impact</p> <p>Existing grantors would have applied AASB 1051 to recognise or not recognise land under roads, and would continue to do so until AASB 1059 becomes operative.</p> <p>New grantors that have not previously recognised land under roads arising from SCAs would have the option to early adopt AASB 1059 to recognise land under roads as part of a service concession asset.</p>
<p>Interpretation 129 Service Concession Arrangements: Disclosures</p> <p>When AASB 1059 becomes operative, the requirements in Int 129, which are only disclosure requirements, do not apply to the grantor of a SCA, as AASB 1059 contains the disclosure requirements for grantors.</p>	<p>Minimal impact</p> <p>Grantors can continue making disclosures under Int 129, which are not significantly different from the requirements in AASB 1059.</p>

APPENDIX C

Differences between ED 261 proposals and AASB 1059 requirements

For information purposes, this Appendix includes a summary of the key differences between ED 261 proposals and AASB 1059 requirements.

The main requirements of AASB 1059 are largely unchanged from what was proposed in ED 261. They both requires/proposed a grantor in a SCA to recognise:

- an asset provided by an operator that is used in a SCA at fair value; and
- a corresponding liability using either the 'Financial Liability' model or the 'Grant of a Right to the Operator' (GORTO) model or a combination of both.

However, AASB 1059 includes some other requirements and guidance compared with ED 261, including:

- mandating the use of the cost model (current replacement cost) under AASB 13 *Fair Value Measurement* to initially measure the service concession asset;
- requiring the recognition of a previously unrecognised intangible asset arising from a SCA as part of the service concession asset;
- providing more guidance on accounting for hybrid projects and mandating that the financial liability part shall be measured first, and allocating the remainder of the total liability to the GORTO;
- requiring that if a SCA encompasses a business as defined in AASB 3 *Business Combinations*, the grantor shall recognise the assets (including any identifiable intangible assets) and liabilities of the business, but goodwill shall not be recognised;
- providing more guidance on the term 'public service'; and
- providing more guidance on the transition requirements.