

10 October 2018

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Kris

Fatal Flaw Review—AASB 2018-X: *Amendments to Australian Accounting Standards – Deferral of AASB 1059*

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to provide comments on the fatal flaw review of AASB 2018-X: *Amendments to Australian Accounting Standards – Deferral of AASB 1059* (the Standard). The views expressed in this submission represent those of all Australian members of ACAG.

In summary, ACAG has not identified any significant issues with the proposed Standard, noting it is simply for deferral of the mandatory application date of AASB 1059 *Service Concession Arrangements: Grantors*.

ACAG notes that several jurisdictions are not adequately prepared for application of AASB 1059. Conclusions on accounting treatment for arrangements potentially in scope of AASB 1059 have not been completed by several jurisdictions. Further, valuations of current replacement cost (CRC) have not been performed at 1 July 2018 for assets which may be classified as service concession assets.

The proposed Standard requires entities to adopt AASB 1059 for annual reporting periods beginning on, or after, 1 January 2020. The transitional requirements mean that entities must recognise service concession assets and related liabilities retrospectively at the date of initial application, which would be 1 July 2019 for 30 June reporters. This will be for comparatives only because in the reporting period beginning on 1 July 2019 (i.e., year ending 30 June 2020), AASB 1059 would not yet be operative.

The impact of deferring the operative date of AASB 1059 was noted by AASB staff as having a moderate impact in relation to AASB 16 *Leases*. ACAG agrees that it is possible for some service concession arrangements to be captured by AASB 16 prior to the application of AASB 1059. It is desirable to avoid accounting for an arrangement under three different accounting standards in 3 years, for example, AASB 117 *Leases* for the year ending 30 June 2019, AASB 16 *Leases* for the year ending 30 June 2020 and AASB 1059 for the year ending 30 June 2021.

ACAG supports the proposal to defer the effective date of AASB 1059. In addition, we urge the AASB to consider transitional arrangements where service concession assets and related liabilities are recognised at the beginning of the annual reporting period in which an entity first applies the standard. This would be consistent with transitional provisions in AASB 16 (paragraph C5(b)). This would allow jurisdictions to early-adopt AASB 1059 for 30 June 2020 financial reports (to align with AASB 16) even if they have not performed measurement of service concession assets at 1 July 2018.

For successful implementation of AASB 1059, ACAG is of the view that the AASB should provide further clarity about the following issues:


- Different approaches are being adopted when valuing service concession assets as the service concession arrangement in most cases is a once off type transaction. Clarity on what types of costs are to be included in the CRC would be useful – for example borrowing or design costs.
- Previously unrecognised intangible assets of the grantor, such as registers of data, are proving difficult to reliably measure under CRC. This is mainly because the cost to replace such information is not readily determined. This can contribute to a large disparity between service concession asset valuations and their associated liability. It is not clear if this is consistent with the Board's intentions as to how the CRC of such items should be considered.
- Anomalous outcomes have been identified when applying the AASB 1059 transitional provisions for measuring the GORTO liability, using the modified retrospective approach, i.e. the formula prescribed in paragraph C4(c). It appears these outcomes were unintended. ACAG believes that effectively requiring preparers to undertake a costly, full retrospective approach to overcome flaws in the transition method is unnecessary—particularly when the approach could be based on an alternative originally considered by the AASB.

ACAG have also encountered the following implementation issue:

- Accounting arguments are being raised by agencies claiming arrangements do not involve a public service (e.g. public hospital carparks). These arguments have been identified in situations where an arrangement meets all the remaining criteria for a service concession arrangement, but agencies are proposing to not include the asset on the balance sheet (if there is right-of-access) or an accrual for the non-cash consideration of the building to be received at the end of the term (if there is a right-of-use), based on the fact that the asset does not involve a public service. ACAG notes that when distinguishing between a right-of-access arrangement and a right-of-use arrangement, provision of a public service is not a distinguishing characteristic. It would be beneficial for the AASB to confirm whether it is the AASB's intention to not require right-of-access accounting for arrangements that meet the criteria of a right-of-access arrangement, merely because they are claimed to not be providing a public service.

ACAG appreciates the opportunity to respond and trust that you find our comments useful.

Yours sincerely



Andrew Greaves
Chairman
ACAG Financial Reporting and Accounting Committee



ACT
Govern ment

Chief Minister, Treasury and
Economic Development

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 3007

Dear Ms Peach

Invitation to Comment – Amendments to Australian Accounting Standards – Deferral of AASB 1059

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to the fatal flaw review proposing the deferral of the mandatory effective date of AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) by 12 months.

In the letter dated 2 August 2018, HoTARAC requested the AASB to consider extending the application date of AASB 1059 (annual reporting periods beginning on or after 1 January 2019) by 12 months. This was necessary given the relatively shorter implementation timeframe, and significant technical and practical implementation challenges related to the new standard for public sector entities.

HoTARAC reiterates its support for the deferral, given it considers it necessary to adequately take into consideration all the implementation challenges and to consult extensively with key stakeholders on changes that only impact Australia.

If you have any queries regarding HoTARAC's comments, please contact Sean Osborn from the New South Wales Treasury on (02) 9228 5932 or by email to sean.osborn@treasury.nsw.gov.au.

Yours sincerely

David Nicol
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee
8 October 2018

Au, Patricia

From: Kandiah, Kala
Sent: Friday, 14 September 2018 7:47 PM
To: Au, Patricia; Anstis, Clark
Subject: Fwd: Queensland Treasury response to Fatal Flaw Draft of AASB 2018-X Amendments to Australian Accounting Standards – Deferral of AASB 1059
Attachments: image001.jpg; ATT00001.htm; FW: Observations about AASB 1059 Service Concession Arrangements: Grantors [SEC=UNCLASSIFIED]; ATT00002.htm

FYI
Sent from my iPhone

Begin forwarded message:

From: Greg Hall <Gregory.Hall@treasury.qld.gov.au>
Date: 14 September 2018 at 7:06:20 pm AEST
To: "Peach, Kris" <kpeach@asb.gov.au>, "Kandiah, Kala" <kkandiah@asb.gov.au>
Cc: David Newby <David.Newby@treasury.qld.gov.au>, Jing Lu <jing.lu@treasury.qld.gov.au>
Subject: Queensland Treasury response to Fatal Flaw Draft of AASB 2018-X Amendments to Australian Accounting Standards – Deferral of AASB 1059

Dear Kris,

Queensland Treasury supports the deferral of AASB 1059's effective date by one year. We note the new commencement date proposed in the Fatal-Flaw Review version (AASB 2018-X) is for annual reporting periods beginning on or after 1 January 2020.

Further to our email correspondence in August 2017 (see attached), we would also encourage the AASB to take this opportunity to make the following two minor amendments to the Implementation Guidance in AASB 1059. We consider these editorial amendments will assist preparers and users properly apply the requirements of AASB 1059 and avoid the potential for misunderstanding and/or misapplication between the Implementation Guidance and the Standard itself.

1. In the revised flowchart in IG10, we believe there should be a 'No' arrow going from the 'Service concession arrangement' box to the 'OUTSIDE THE STANDARD' box. Our view is that the flowchart in its current form can be misinterpreted that - if either of the top two boxes is 'Yes', then the arrangement is automatically a service concession arrangement, and you'd then assess control under paragraphs 5 & 6. However, before you get to that point, it could be that the definition of "service concession arrangement", and the factors covered in IG2, put the arrangement outside of the scope of the standard.

2. We noted the scope change that the operator must now be responsible for managing at least some of the public services provided through the asset, rather than be responsible for at least some of the management of the asset. We consider that the second row of the table in IG13 is now out of line with this change. For example, to be more consistent with B10, we suggest the second row of that table could be amended along the following lines:

Features	Construction contract with	Lease (grantor is lessor)	Service concession arrangement	Sale/Privatisation
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	service outsourcing contract			
Operator provides public services related to the asset on behalf of the grantor and is responsible for <u>the management of at least some of the public services</u> (paragraph B10)?	Operator provides construction services, not public services . Operator provides <u>public services</u> and related services as predetermined by the grantor .	Operator involvement in the management of the <u>public services</u> and related services varies , depending on the lease terms (i.e. operator may have full involvement or be limited to facility management <u>that is not a significant component of the public services provided by the asset</u>)	Operator involved in management of <u>public services provided by the asset</u> that are not predetermined by the grantor (i.e. operator has discretion <u>as to how the public services are provided and managed</u>)	Operator does not provide public services on behalf of the grantor , despite any protective rights of the grantor.

Should you have any questions, please contact David Newby, Jing Lu or myself.

Regards

Greg

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