



Service Concession Arrangements: Grantors

Project summary

Following the issuance of IPSAS 32 *Service Concession Arrangements* by the IPSASB in October 2011, the AASB decided to undertake a project to develop an Australian Accounting Standard on grantor accounting for service concession arrangements, based on IPSAS 32, to address the lack of guidance for accounting for service concession arrangements from the grantor perspective.

A final Standard is expected in June 2017.

Project contacts

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Project priority: High

Issued documents

- ED 261 *Service Concession Arrangements: Grantor*
- AASB 10XY *Service Concession Arrangements: Grantors – Fatal-Flaw Review version*

AASB outreach

- Roundtable discussions
- Education sessions
- Comment letters on ED 261
- Field test of proposals in Q4 2015 – Q3 2016
- Comment letters on Fatal-Flaw Review version

Project status

- Redeliberations complete
- Standard targeted for issue H1 2017

Board deliberations

- AASB Action Alert Update and AASB Board papers

- IPSAS 32 *Service Concession Arrangements: Grantor*

AASB communications

- Media release 'Service Concession Arrangements Proposals for Public Sector Grantors' 6 May 2015

Latest project news

Date	News
3 May 2017	May 2017 Action Alert
28 March 2017	March 2017 Action Alert

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

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May 2017

The Board decided the following in response to issues raised regarding the public Fatal-Flaw Review version of the draft Standard AASB 10XY *Service Concession Arrangements: Grantors*:

- (a) if the service concession arrangement encompasses a business, as defined in AASB 3 *Business Combinations*, the grantor should recognise the assets (including any identifiable intangible assets) of the business if they meet the service concession criteria, excluding internally generated goodwill; and
- (b) to include a diagram in the Implementation Guidance that summarises the key decisions to determine whether an operator provides public services through a service concession arrangement.

The Board also approved the timeline for finalising AASB 10XY, with a view to issuing the Standard by 30 June 2017.

13.1 Cover Memo: Service Concession Arrangements: Grantors – Timeline to finalise Standard and project update

March 2017

The Board tentatively decided to respond to the comments received from constituents in response to the public Fatal-Flaw Review version of the draft Standard AASB 10XY *Service Concession Arrangements: Grantors* with clarifications as set out below. The Board will review revisions to the draft AASB 10XY through a pre-Ballot Draft version, without further public exposure. The clarifications are as follows:

- (c) in determining whether a grantor controls or regulates a service concession asset where a third party regulates the pricing of the services of the asset, the control or regulation of the pricing is only one factor to be considered – the grantor must also control or regulate the services the operator must provide with the asset and to whom it must provide them, and control any significant residual interest in the asset at the end of the term of the arrangement;
- (d) AASB 10XY would override AASB 138 *Intangible Assets* in requiring a grantor to recognise an existing (but previously unrecognised) intangible asset that is used in a service concession arrangement, measured at current replacement cost. After initial recognition, the intangible service concession asset would be accounted for in accordance with AASB 138, except that upon ceasing to be a service concession asset, where control is retained, the intangible asset will continue to be recognised (ie AASB 138 recognition criteria will not be reapplied);
- (e) judgement is required in determining whether an arrangement provides public services, particularly where an asset may be used for public services or for other activities (eg car parks and student accommodation); and
- (f) in the Illustrative Example for the grant of the right to the operator model (Example 2) – upgrades and replacement of major components of a service concession asset should be accounted for as a separate asset and recognised when the upgrade or replacement is constructed, with the grantor recognising revenue for the upgrade or replacement on a systematic basis, such as a straight-line or component basis.

The Board also decided AASB 10XY should:

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	<p>(a) retain the requirements for the recognition of a service concession arrangement involving a grant of a right to the operator model;</p> <p>(b) address the IFRS Interpretations Committee’s recent decisions on IFRIC Interpretation 12 <i>Service Concession Arrangements</i> on the accounting for an operator’s payments to the grantor and variable payments made by an operator in a service concession arrangement. The Board agreed the accounting for variable payments forming part of the financial liability are accounted for using AASB 9 <i>Financial Instruments</i>, not AASB 16 <i>Leases</i>, as a service concession arrangement involves the acquisition of an asset, not a lease;</p> <p>(c) provide examples of arrangements that are clearly a privatisation, a lease, a construction contract, and an outsourcing contract to illustrate:</p> <ul style="list-style-type: none">(i) a lease provides a right of use to the lessee, whereas a service concession provides only a right of access to the operator;(ii) a privatisation generally only limits pricing, whereas a service concession limits pricing, use of the asset and the residual interest (if significant);(iii) a construction contract generally has minimal other services provided by the constructor, whereas a service concession generally has managerial services such as maintenance and upgrade services provided by the operator; and(iv) an outsourcing contract provides goods or services wholly to those in the public sector to assist in delivering services, whereas a service concession provides goods or services to the general public or a subset thereof.

The Board discussed whether a whole-of-life asset should be described as an asset that will be used in a service concession arrangement for its ‘economic life’ or for its ‘entire useful life’. This will be addressed further by the Board out of session.

3.0 Cover Memo: Service Concession Arrangements – Grantors

3.1 Draft Basis for Conclusions for Pre-Ballot Draft of AASB 10XY [Board only]

3.2 Fatal-flaw Review version of AASB 10XY

3.3 Staff Collation and Review of Comment Letter on Fatal-Flaw Review version of AASB 10XY

3.4 Comment letters received on Fatal-Flaw Review version of AASB 10XY

**December
2016**

The Board tentatively decided the Standard *Service Concession Arrangements: Grantors* should include guidance on ‘public service’ for assessing whether an arrangement is within the scope of the Standard. The guidance should be in the form of examples and features to be considered, such as:

- (a) an operator must be responsible for at least some of the management of the service concession asset and related services, and does not act merely as an agent of the grantor; and
- (b) services that are insignificant to the arrangement as a whole may be ancillary services.

The Board requested Staff to review the ‘service concession asset’ definition for consistency with the proposed public service guidance.

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The Board reaffirmed its previous tentative decision that no further guidance is necessary for the:

- (a) terms of 'outsourcing', 'service contract', 'privatisation', 'significant residual interest' and 'estimated current value';
- (b) accounting for other revenues – references to AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* are to be included instead; and
- (c) accounting for life cycle costs – references to AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* for accounting for costs subsequent to the initial recognition of an asset are to be included.

The Board decided:

- (a) the effective date of the Standard would be annual reporting periods beginning on or after 1 January 2019;
- (b) to clarify the modified retrospective transition approach for measuring the unearned revenue liability under the grant of the right to the operator (GORTO) model. The approach would measure the liability based on the fair value of the asset at the transition date, adjusted to reflect the remaining concession period relative to the remaining useful life of the asset. Additionally, the accumulated surplus/deficiency adjustment on transition for the financial liability model would also apply to the GORTO model; and
- (c) to adopt a principles-based approach for the disclosure requirements and to remove references to accounting for service concession assets as a separate class or classes of assets. The latter amendment is consistent with the recently issued *IPSAS Improvements to IPSASs 2015*.

The Board also discussed the final findings of the field test on service concession arrangements and agreed to provide an additional 'hybrid' example to assist preparers in implementing the Standard.

The Board discussed the draft Standard and decided to:

- (a) require an existing asset that is reclassified as a service concession asset (including an intangible asset) to be remeasured at fair value (current replacement cost) at the time of reclassification;
- (b) state explicitly that in a hybrid arrangement, the financial liability part is to be measured first and the remainder of the total liability allocated to the part related to the grant of the right to the operator; and
- (c) publish a revised draft Standard on the AASB website in February 2017 for a fatal-flaw review process.

3.0 Cover Memo: Service Concession Arrangements – Grantors

3.1 Redeliberation of issues raised by constituents

3.2 Service concession arrangements field test final findings [Board only]

3.3 Draft Accounting Standard AASB 10XY *Service Concession Arrangements: Grantors* [Board only]

June 2016

The Board tentatively decided the Standard on Service Concession Arrangements: Grantor should include the following guidance where the operator's compensation is based on the

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usage of the service concession asset (i.e. no minimum guaranteed amount):

- (a) account for the arrangement using the financial liability model, and not the grant of the right to the operator model;
- (b) initially recognise the financial liability at the fair value of the service concession asset; and
- (c) subsequent to the initial recognition, account for the financial liability in accordance with AASB 9 requirements, including those for determining and using the effective interest rate, changes in expectations of future cashflows, and modifications to agreements.

The Board noted that accounting for the arrangement as a financial liability by the grantor may result in asymmetry in accounting by the operator for the same transaction. However, the Board decided that the principles appropriate to the specific Standard are more important than achieving symmetry in accounting by parties to an arrangement.

The Board reaffirmed its previous tentative decision that the scope of the Standard should apply to all public sector entities comprising both for-profit and not-for-profit entities. The Board noted it is highly unlikely that a for-profit entity in applying the Standard in accounting for the grant of the right to the operator model will be able to make an explicit and unreserved statement that its financial statements comply with IFRS.

The Board further decided, instead of providing a definition of 'public service', the Standard is to include indicators and examples to demonstrate the existence of 'service to the public'. The Board requested staff to develop indicators and examples for discussion at the next Board meeting.

4.0 Cover Memo: Service Concession Arrangements

4.0 App A Part 1 AASB 10XY SCA Log of Changes

4.0 App A Part 2 Draft AASB 10XY SCA Marked-up

4.1 Staff Paper: Service Concession Arrangements – Liability Recognition Model

4.2 Staff Paper: Service Concession Arrangements – Scope

4.3 Staff Paper: Service Concession Arrangements – Public Service Definition

April 2016

The Board tentatively decided that, because there is sufficient guidance in ED 261 *Service Concession Arrangements: Grantor* and/or existing Australian Accounting Standards, additional guidance in the following areas is not warranted:

- (a) establishing the fair value of a partly constructed asset;
- (b) initial valuation of an intangible service concession asset;
- (c) accounting for economic obsolescence in determining the asset's fair value; and
- (d) the principle-based approach to recognising revenue when amortising the grant of the right to the operator liability.

The Board tentatively decided that Application Guidance should:

- (a) identify the finance charge in the financial liability model using the effective interest rate method in AASB 9 *Financial Instruments* (ie implicit interest rate), rather than the entity's cost of capital; and
- (b) in a hybrid arrangement, permit allocating the total liability to the financial liability,

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with the remaining portion allocated to a grant of the right to the operator liability.

The Board agreed to consider at a future meeting the accounting for arrangements where the grantor compensates the operator based on the usage of the service concession asset by third-party users and where the grantor's obligation may not be for a specified or determinable amount to the operator.

The Board received a staff presentation on the preliminary findings of the field testing on service concession arrangements.

4.1 Staff Paper: Service Concession Arrangements – Redeliberation of Proposed Asset and Liability Recognition and Measurement

February 2016

The Board decided to retain the measurement approach in ED 261 *Service Concession Arrangements: Grantor*. ED 261 proposed the grantor initially measures the service concession asset at fair value with the liability measured at the same amount as the service concession asset. The Board decided the final Standard should clarify the service concession asset is a specialised asset that the grantor uses for its service potential to achieve public service objectives. Consequently, only the cost approach to measuring the fair value of service concession assets is relevant and in this specific instance, that where the operator has been granted the rights to future cash flows, this need not be considered in the valuation.

The Board confirmed the proposal that, under the grant of the right to the operator model, the grantor would recognise revenue, and accordingly reduce the liability, in accordance with the economic substance of the arrangement.

The Basis for Conclusions will include the Board's consideration of alternative measurement approaches, including applying:

- (a) AASB 140 Investment Property by analogy;
- (b) the licensing Application Guidance in AASB 15 *Revenue from Contracts with Customers* by analogy; and
- (c) the financial liability model to all service concession arrangements.

13.1 Staff Paper: Service Concession Arrangements – Redeliberation of Proposed Asset and Liability Recognition and Measurement

December 2015

The Board decided to retain the principles in ED 261 *Service Concession Arrangements: Grantor* that the grantor controls the asset if it controls or regulates what services the operator must provide with the asset, to whom it must provide them and at what price. The Board also decided that the existing application guidance should be restructured and additional guidance provided to include:

- (a) the requirement to apply the broader concept of control in other Australian Accounting Standards and include a new 'Implementation Guidance' section that sets out the typical types of arrangements for private sector participation in the provision of public sector services with references to the relevant Australian Accounting Standards that may apply to those arrangements;
- (b) those arrangements within the scope of the proposed Standard, including arrangements involving third-party regulation, long term arrangements, outsourcing, service or privatisation arrangements based on whether they meet the control criteria;

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- (c) situations in which there is a change in the grantor's control of the asset; and
- (d) the relationship between 'significant residual interest' and the extent to which an arrangement covers the 'whole-of-life' of the assets concerned in determining whether the grantor has control of the assets.

The Board discussed whether the proposed 'grant of the right to the operator' model in ED 261 is the appropriate model for recognising the service concession liability. The Board decided that the project should continue on the basis that it is the appropriate model and instructed Staff to research, for completeness, the rationale for the decision to adopt the model, taking into consideration issues around determining the fair value of the asset under this model.

12 Memorandum: Service Concession Arrangements – Redeliberation of Proposed Control Concept, Alternative Models to Liability Recognition and Measurement

12.1 Staff Paper: Service Concession Arrangements – Redeliberation of Proposed Control Concept

October 2015

The Board tentatively decided that, consistent with the proposals in ED 261 *Service Concession Arrangements: Grantor*, the final Standard on service concession arrangements should apply to all public sector grantors in both the for-profit and not-for-profit sectors. The Board also discussed whether a for-profit public sector entity complying with the Standard could make an explicit and unreserved statement that its financial statements comply with IFRS.

The Board directed staff to undertake further outreach to better understand the reasons why IFRS compliance is important to for-profit grantors and to identify the current circumstances where the Board has permitted for-profit public sector entities to not comply with IFRS and how ED 261 might impact the Board's strategy to enable for-profit entities to state IFRS compliance. The Board also directed staff to discuss with the IFRS Interpretations Committee staff the likelihood and timeframe of any possible response from the Committee if the Board sought confirmation from the Committee that the ED 261 proposals are consistent with IFRS, either on the narrow issue of application of IFRS 15 *Revenue from Contract with Customers*, or a broader range of issues. The Board directed staff to bring the findings for consideration at a future Board meeting.

The Board approved field testing the requirements of ED 261, noting that a longer timeline may be required to accommodate the testing process.

6 Memorandum: Service Concession Arrangements – Redeliberation of Proposed Application and Field Test Draft Project Plan

6.1 Staff paper: Service Concession Arrangements – Redeliberation of Proposed Application to All Public Sector Entities

6.2 ED 261 *Service Concession Arrangements: Grantor* Field Test – Draft Project Plan October 2015

September 2015

The Board considered the feedback received to date on ED 261 *Service Concession Arrangements: Grantor* and noted that, overall, constituents were supportive of the proposals and did not identify any major impediments to progressing the project. However, feedback also indicated that there are a number of areas requiring Board redeliberation and

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further work, including:

- (a) application to all public sector entities;
- (b) concept of control;
- (c) issues regarding the interaction of these proposals with fair value considerations, particularly where the operator has a right to proceeds from the public;
- (d) consideration of additional guidance/examples;
- (e) liability recognition and measurement;
- (f) defined terms;
- (g) other revenues, lifecycle costs and GAAP/GFS implications;
- (h) application date and transitional provisions; and
- (i) disclosures.

The Board also noted that staff intend to undertake field tests of the proposals later in 2015.

The Board approved the draft Project Plan.

6.1 Memorandum from Daen Soukseun dated 18 August 2015 re Service Concession Arrangements: Grantor

6.2 Staff Issues Paper: Staff Collation and Analysis of Comment Letters and Outreach ED 261 *Service Concession Arrangements: Grantor*

6.3 ED 261 Service Concession Arrangements: Grantor – Draft Project Plan September 2015

6.4 Comment letters on ED 261 *Service Concession Arrangements: Grantor*

February 2015

An Exposure Draft (ED) is targeted for issue by the end of March 2015, with a 120-day comment period. Given the importance of this issue to the public sector the Board will be conducting a number of outreach activities.

Key tentative Board decisions include:

- (a) the Board tentatively reaffirmed its earlier decision to apply the control or regulation approach, rather than a control only approach. The control or regulation approach mirrors AASB Interpretation 12 *Service Concession Arrangements*. In making this decision the Board noted that the proposals in the ED will reinforce the move from recognising assets based on a risk and rewards approach to a control based approach. Accordingly, infrastructure assets subject to public/private arrangements not captured under the proposals (i.e. no price regulation) may still need to be recognised under other Standards addressing control of assets. The Board also noted that AASB 10 *Consolidated Financial Statements* applies to any special purpose vehicles that hold service concession assets;
- (b) if a service concession arrangement involves a right to charge users, the grantor should account for its promise (explicit or implicit) to undertake activities in relation to the service concession asset that will benefit the operator as a contract liability, similarly to a right of access licence under AASB 15 *Revenue from Contracts with Customers*;

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	(c) to define 'public service', noting that this may mean that the proposals in the ED have a wider scope than AASB Interpretation 12;
	(d) that any difference between the fair value of the asset and the financial liability on transition is to be included in opening equity, noting that this amount cannot be used to offset any future impairment losses; and
	(e) the ED apply to all grantors (including public sector for-profit entities), but requested staff to undertake further analysis on the scope prior to the issuance of the ED.
	<u>5.1</u> Memorandum from Sean Hanley and Daen Soukseun dated 27 January 2015 2015 re Service Concession Arrangements: Grantor's Perspective
	<u>5.2</u> AASB Staff Issues Paper: Service concession arrangements (Grantor) Project – Potential issues for Board consideration
	<u>5.2.1</u> Staff Issues Paper: Service Concession Arrangements: Grantor Project – Additional Issues raised by Board members

December 2014

The Board continued discussing service concession arrangements in which the grantor provides an operator a right to charge third parties and the operator constructs and operates a service concession asset. Given the importance of service concession arrangements to governments and the current lack of accounting guidance for such arrangements, the Board decided that service concession arrangements should be treated separately from licences granted by governments. The Board tentatively decided to propose that a grantor should:

- (a) initially recognise an obligation (instead of immediate revenue recognition) when the service concession asset is recognised; and
- (b) subsequently recognise revenue over the life of a service concession arrangement.

The Board emphasised that the Basis for Conclusions would explain that the Board was persuaded by several factors including: the grantor's obligation to step-in to provide the public service if the operator were to fail to perform its obligations under the service concession arrangement; the grantor controls the asset and only provides a right of access to the asset; the grantor would be obliged to undertake various activities in relation to the service concession asset over the term of the arrangement; and that IFRS 15 requires a performance obligation that grants a right of access to be a performance obligation satisfied over time.

The Board also considered other issues that have been raised with staff, relating to the scope of the project, assessing control of the service concession asset, and the measurement of the service concession asset. The Board reconfirmed its previous tentative decisions that:

- (a) *IPSAS 32 Service Concession Arrangements: Grantor* is the foundation for the scope of the standard on grantor accounting in service concession arrangements;
- (b) The control approach in *IPSAS 32* remains appropriate and that additional guidance should clarify whether a grantor controls a service concession asset where a third-party regulator is involved.

Further, the Board agreed that staff should conduct further research on measurement of the service concession asset.

The Board also considered the relationship between service concession arrangements and

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	<p>other licences granted by government, and instructed staff to conduct research on the nature and accounting for various licences. The purpose of this research is to inform the Board as to whether a separate project may be required to consider the accounting for these types of licences.</p> <p><u>7.1</u> Memorandum from Glenn Brady and Nikole Gyles dated 11 December 2014 re Service Concession Arrangements: Grantor's Perspective</p> <p><u>7.2</u> AASB staff issues paper: Service concession arrangements (grantor) project – Potential issues for redeliberation</p> <p><u>7.3</u> AASB staff issues paper: Should a grantor recognise revenue or a liability in accounting for a service concession arrangement under the intangible model?</p> <p><u>7.4</u> Summary of decisions made to date on service concession arrangements project [For information only]</p> <p><u>7.5</u> Current practice in relation to service concession arrangements (NSW, Victoria and GFS) [For information only]</p> <p><u>7.6</u> Interpretation Advisory Panel: Service Concession Arrangements – Public Sector Grantors [For information only]</p>
<p>September 2014</p>	<p>The Board considered the implications of applying the main revenue model in IFRS 15, either directly or by analogy, to account for a grantor's rights and obligations in a service concession arrangement.</p> <p>The Board tentatively decided that, from a grantor's perspective, a service concession arrangement in which the grantor promises to transfer an intangible asset to the operator would not be a contract with a customer within the scope of IFRS 15. The Board considered that the intangible asset that the grantor promises to transfer to the operator in exchange for the operator's services is in the nature of financing the construction of the service concession asset and, as such, would not be an output of the government's ordinary activities.</p> <p>In light of its tentative conclusion that, from a grantor's perspective, a service concession arrangement would not be a contract with a customer, the Board directed the staff to analyse alternatives other than IFRS 15 for accounting for a grantor's rights and obligations. The Board noted that some aspects of IFRS 15 may not be particularly suitable for application to service concession arrangements, but other aspects could be suitable for application by analogy to a grantor's rights and obligations. In developing other alternatives, the Board directed the staff to consider aspects from other pronouncements, including IPSAS 32 <i>Service Concession Arrangements: Grantor</i>.</p> <p><u>15.1</u> Memorandum from Christina Ng dated 26 August 2014 re: Service Concession Arrangements: Grantor's Perspective</p> <p><u>15.2</u> Issues paper: Scope of IFRS 15 in the context of Service Concession Arrangements</p> <p><u>15.3</u> Issues paper: Application of IFRS 15 in the context of Service Concession Arrangements</p>
<p>July 2014</p>	<p>The Board considered a staff issues paper that outlines the implications and suitability of applying, by analogy, the licence application guidance in IFRS 15 to service concession arrangements that involve a grantor providing a licence to charge users to an operator in exchange for a service concession asset and related future services.</p>

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The Board did not make any decisions at this meeting on the suitability of applying IFRS 15's licence guidance to service concession arrangements. Instead, the Board directed staff to undertake further analysis, in particular, to consider:

- (a) whether a service concession arrangement from the grantor's perspective could be within the scope of IFRS 15; and
- (b) the implications of applying the requirements in IFRS 15, either directly or by analogy, to service concession arrangements, including considering whether the asset promised to the operator should be accounted for as a licence or as some other form of good or service.

8.1 Memorandum from Christina Ng dated 10 July 2014 re Service concession arrangements: Grantor's perspective

8.2 Information paper re Public Private Partnerships and Service Concession Arrangements

8.3 Issues paper re Revenue recognition from licences in the context of service concession arrangements

8.4 Notes on targeted outreach re service concession arrangements

8.5 PowerPoint presentation on IFRS 15 overview of licences guidance

February 2013

The Board received a progress report on its project considering the modifications that might be made to IPSAS 32 *Service Concession Arrangements: Grantor* to make it suitable for adoption in Australia. In particular, the Board noted the progress made by staff in addressing the question of whether a grantor should initially recognise a liability or revenue when it receives a service concession asset from an operator in exchange for a right (that is, a licence) to charge users of the asset. In addition, the Board:

- (a) noted staff had conducted preliminary targeted outreach to ascertain views from Australian constituents on grantor accounting for service concession arrangements in light of the IASB's and the FASB's November 2012 tentative decisions in relation to licences (as part of their joint project on revenue recognition); and
- (b) directed staff to conduct further targeted outreach with Australian constituents based on the near-final wording of the application guidance on licences to be included in the forthcoming IFRS on revenue.

11.1 Memorandum from Christina Ng dated 5 February 2013 re Service Concession Arrangements: Grantor's Perspective

September 2012

The Board had before it:

- (a) a memorandum from Christina Ng and Frank Traczewski dated 21 August 2012 (Agenda Paper 13.1); and
- (b) a staff issues paper relating to the impact of third-party regulation on the assessment of control of a service concession asset by a grantor (Agenda Paper 13.2).

Consistent with its earlier decision to develop an ED based on IPSAS 32 *Service Concession Arrangements: Grantor*, the Board continued its consideration of how IPSAS 32 should be modified to suit the Australian environment. In particular, the Board considered the need for additional guidance on whether a grantor controls a service concession asset in

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circumstances in which a third-party regulator is involved. The Board noted that, depending on the terms of an arrangement, there could be different levels of regulation. Furthermore, a binding arrangement that includes the role of a regulator in regulating the services the operator must provide with the asset, to whom the operator must provide them, or at what price is not the only deciding factor as to whether the grantor has control of the service concession asset.

Accordingly, the Board decided to include guidance in the ED emphasising that the fundamental principle is 'control', and that regulation of a service concession asset is only one of the factors to consider in determining whether the grantor controls the asset in particular circumstances. Consistent with the Board's thinking, the ED to be developed should avoid implying that an asset is controlled because it is regulated. Furthermore, because the NFP Implementation Guidance being developed for AASB 10 *Consolidated Financial Statements* refers to regulation in a different context to the issues pertinent to service concession arrangements, care needs to be taken in adapting that NFP guidance in this project.

The Board plans to consider, at a future meeting, a further issues paper on whether the granting of a right to an operator to charge users of a service concession asset gives rise to the initial recognition of a liability (as required by IPSAS 32) or revenue (as proposed in IASB ED/2011/6 *Revenue from Contracts with Customers*) of the grantor, having regard to the IASB's redeliberations on the proposals in IASB ED/2011/6. The paper will also address measurement issues.

July 2012

The Board had before it:

- (a) a memorandum from Frank Traczewski and Christina Ng dated 10 July 2012 (Agenda Paper 8.1);
- (b) a discussion paper on IPSAS 32 *Service Concession Arrangements: Grantor* (Agenda Paper 8.2); and
- (c) IPSAS 32 (Agenda Paper 8.3).

The Board considered a preliminary staff issues paper addressing matters relevant to determining the suitability of IPSAS 32 in an Australian context, in particular:

- (a) whether IPSAS 32 is clear in relation to the question of whether a grantor controls a service concession asset when the asset is regulated by a third party;
- (b) whether the grantor should recognise revenue immediately or over the term of the arrangement when it receives the service concession asset in exchange for granting the operator a right to charge users of the asset or another revenue-generating asset; and
- (c) how the revenue (or liability) should initially be measured.

Although the Board considers it is likely that modifications would need to be made to IPSAS 32, the Board decided that IPSAS 32 provides an appropriate basis for developing an Australian pronouncement, and accordingly, it is not necessary for the Board to reconsider the scope of IPSAS 32 or the underlying control model. For example, a grantor may not necessarily control an asset if it regulates the price of a service concession asset only, and does not regulate what service the asset should provide and to whom. The Board directed

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staff to explore further the issues staff had identified in Agenda Paper 8.2 and to particularly consider the implications of the Board's ongoing projects on:

- (a) Control in the NFP Sector (for example, as it relates to control and regulation). Conclusions about whether a grantor controls a service concession asset should be aligned with the outcomes of the Control in the NFP Sector project. In relation to the implications of price being determined by a third party regulator, the Board noted that it might still be regarded as the grantor controlling the price because the contract would typically require the operator to be bound by the regulator and therefore the grantor effectively controls the price through the contract; and
- (b) Revenue from Contracts with Customers (for example, as it relates to revenue from licenses). In relation to licenses, the Board noted the IASB decisions in its Revenue from Contracts with Customers project and also noted the view that not all licenses should necessarily be treated the same. The Board asked staff to discuss this matter with IASB staff.

The Board plans to consider a further issues paper at its next meeting. Some further field work may be undertaken to consider how the accounting would apply to different types of assets pertinent to service concession arrangements. These include assets used to provide the service, whether pre-existing, created by the grantor (for example, 4G license) or constructed by the operator, and the right given to the operator to charge users of the asset.

October 2011

The Board had before it:

- (a) a memorandum from Clark Anstis dated 11 October 2011 (Agenda Paper 4.1);
- (b) a report on the IPSASB meeting, September 2011 (Agenda Paper 4.2); and
- (c) an issues paper re IPSAS 32 Service Concession Arrangements: Grantor (September 2011) (Agenda Paper 4.3).

The Board received an update on the September 2011 meeting of the IPSASB and discussed a range of issues.

The Board noted that the IPSASB commenced its consideration of the submissions received on various Conceptual Framework proposal documents and that the IPSASB discussed presentation and disclosure (phase 4 of the Conceptual Framework project), with a revised draft Consultation Paper to be considered at its next meeting for approval.

At its meeting, the IPSASB also approved an ED on reporting on the long-term sustainability of a public sector entity's finances and a Consultation Paper on reporting service performance information. Other topics discussed by the IPSASB included entity combinations, updating the consolidation and joint arrangements Standards, and financial statement discussion and analysis. The Board noted that it intended to develop submissions to the IPSASB on the ED and the Consultation Paper.

The Board also noted that the IPSASB had approved a Standard on accounting for service concession arrangements by grantors, which is expected to be finalised and published in the near future. The Board confirmed that once the IPSASB finalises its Standard, the Board will seek to develop an Australian ED based on that Standard. The ED may include proposed requirements that differ from the IPSASB Standard. The Board decided that its sub-committee on service concession arrangements should undertake the initial work with staff in developing the ED. Mr Williams agreed to join the sub-committee. The continuing

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	members of the sub-committee are Glenn Appleyard, Ian McPhee, Brett Rix and Kevin Stevenson.
September 2011	<p>The Board had before it:</p> <ul style="list-style-type: none">(a) a memorandum from Clark Anstis dated 31 August 2011 (Agenda Paper 16.1);(b) a staff issues paper (Agenda Paper 16.2); and(c) extracts from the draft IPSAS 32 <i>Service Concession Arrangements: Grantor</i> (September 2011) (Agenda Paper 16.3). <p>The Board reviewed the draft Standard on grantor accounting for service concession arrangements that is to be considered for approval by the IPSASB at its meeting later in September. The Board expressed concerns over the following aspects:</p> <ul style="list-style-type: none">(a) the treatment of regulation that is the responsibility of third-party regulators in relation to whether the grantor controls or regulates the services that the operator must provide under a service concession arrangement, the recipients and the pricing of the services. Members noted that a third-party regulator could be from a different jurisdiction to the grantor, which may affect the assessment of whether the grantor should recognise service concession assets provided by the operator; and(b) the initial measurement of the grantor's liability under a service concession arrangement at the fair value of the service concession assets, rather than the fair value of what the grantor has given up – when the grantor grants a licence to the operator to charge users of the service concession assets, the licence covers both the availability of the assets to the operator over the term of the arrangement and the services to be provided by the operator, so that the grantor's assets may include both the underlying service concession assets and a prepaid service component. The Board considered that the draft Standard should address the creation of licences by the grantor in connection with service concession arrangements. <p>The Board noted that the IPSASB may decide to re-expose the draft Standard or parts of it, instead of approving it for issue. If the IPSASB decides to re-expose, the Board anticipates publishing the exposure draft in Australia for comment. If the IPSASB instead approves its Standard for issue, the Board will consider at a future meeting whether to issue an exposure draft that includes proposed requirements that are modified from the IPSASB's requirements. For example, the proposals might include modified revenue recognition requirements consistent with the outcome of the IASB project on revenue from contracts with customers.</p>
July 2011	<p>The Board had before it:</p> <ul style="list-style-type: none">(a) a memorandum from Clark Anstis dated 29 June 2011 (Agenda Paper 18.1);(b) a review of relevant IPSASB decisions in June 2011 (Agenda Paper 18.2); and(c) the AASB's submission (July 2010) on IPSASB Exposure Draft ED 43 <i>Service Concession Arrangements: Grantor</i> (February 2010) (Agenda Paper 18.3). <p>The Board discussed recent decisions of the IPSASB at its June 2011 meeting concerning grantor accounting for service concession arrangements. In particular, the Board discussed, but made no decisions about, the following aspects:</p> <ul style="list-style-type: none">(a) the scope of regulation that should be considered by a grantor in assessing whether it

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controls service concession assets;

- (b) the recognition by a grantor of a service concession asset as it is being constructed by the operator when the grantor has little ability to avoid accepting the assets constructed under the specifications of the service concession arrangement;
- (c) the pattern of recognition of revenue by a grantor when it obtains control of service concession assets constructed by the operator and compensates the operator by granting a right to charge third-party users of the assets; and
- (d) retrospective application of an IPSASB Standard by grantors, including those that have not previously recognised service concession assets.

Board members noted that the IPSASB will consider finalising its Standard at its September 2011 meeting. The IPSASB may, however, decide to re-expose the proposed Standard or parts of it. Members agreed that the Board should comment to the IPSASB on the next draft of the proposed Standard when it is available.

The Board also discussed the process that it might follow, once the IPSASB has issued its Standard, to develop an Australian Accounting Standard on grantor accounting for service concession arrangements. For example, an exposure process in Australia might be based on the IPSASB Standard. The proposals might include modified revenue recognition requirements consistent with the outcome of the IASB project on Revenue from Contracts with Customers.

June 2010

The Board had before it:

- (a) a memorandum from Clark Anstis and Siva Sivanantham dated 2 June 2010 (Agenda Paper 16.1);
- (b) an issues paper – Issues for submission to IPSASB? (Agenda Paper 16.2);
- (c) Exposure Draft ED 194 *Request for Comment on IPSASB Exposure Draft “Service Concession Arrangements: Grantor”* (Agenda Paper 16.3); and
- (d) submissions on ED 194 (Agenda Paper 16.4).

The Board considered constituents’ comments on ED 194 and discussed the main points to be included in its submission to the IPSASB. The Board decided that its submission should:

- (a) support the scope of the proposed Standard, with reference to both the description in the ED of service concession arrangements (rather than a definition) and the same grantor control criteria as in IFRIC Interpretation 12 *Service Concession Arrangements*;
- (b) note that, although Government Business Enterprises (GBEs) could be grantors, the Board did not support extending the scope of the proposed Standard to include GBEs, given the IPSASB’s general exclusion of GBEs from the scope of its Standards;
- (c) suggest that BOOT (build-own-operate-transfer) arrangements might be identified in the proposed Standard or its Basis for Conclusions as a type of BOT (build-operate-transfer) arrangement and thus covered by the requirements;
- (d) support the IPSASB’s reference to “any significant residual interest” in paragraph 10(b) of the ED and the coverage of whole-of-life service concession arrangements;

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| | (e) express the view that the grantor should recognise a service concession asset constructed by the operator as construction takes place, irrespective of whether the construction risk is borne by the grantor or the operator; |
| | (f) accept the IPSASB proceeding with the performance obligations approach, but with clarification of the following aspects: <ul style="list-style-type: none">(i) why a performance obligation should be recognised only to the extent that the grantor's payment obligation (financial liability) falls short of the fair value of the service concession assets;(ii) whether the grantor has a performance obligation in respect of its existing assets that are reclassified as service concession assets, and if not, why not; and(iii) whether the performance obligation approach is proposed essentially as a means of deferring revenue recognition by grantor; |
| | (g) note that it would be useful to require separate (rather than combined) disclosure of service concession assets recognised during the period and of existing assets of the grantor reclassified as service concession assets during the period – at present, these amounts could be combined in the one disclosure required by paragraph 27(c)(iii) of the ED, even though paragraph 12 appears to suggest that separate disclosure is intended; and |
| | (h) propose retrospective (rather than prospective) application of the Standard when first applied by an entity. |

The Board requested staff to consider whether the references to regulation in the ED are appropriate from the grantor's perspective.

It was agreed that a subcommittee comprising the Chairman and Messrs Appleyard, Jenkin, McPhee and Rix will finalise the Board's submission to the IPSASB out of session.