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Service Concession Arrangements: Grantors

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 10XY *Service Concession Arrangements: Grantors* is set out in paragraphs 1 – 29 and Appendices A – D. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. AASB 10XY is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Preface

Introduction

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards, including Interpretations. The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*.

AASB 1057 *Application of Australian Accounting Standards* identifies the application of Standards to entities and financial statements. AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements.

What this Standard requires

This Standard addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from the grantor's perspective. The Standard is based on International Public Sector Accounting Standard IPSAS 32 *Service Concession Arrangements: Grantor* and is informed by AASB Interpretation 12 *Service Concession Arrangements*, which sets out the accounting for the operator in a service concession arrangement. For example, the principles for recognition of a service concession asset are consistent with AASB Interpretation 12.

The Standard applies to arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time.

The Standard requires the grantor to:

(a) recognise a service concession asset constructed, developed or acquired from a third party by the operator, including an upgrade to an existing asset of the grantor, when the grantor controls the asset. The grantor controls the asset if the grantor controls or regulates the services the operator must provide with the asset, to whom it must provide them and at what price, and if the grantor controls any significant residual interest in the asset at the end of the term of the arrangement;

(b) reclassify an existing asset as a service concession asset when it meets the criteria for recognition as a service concession asset;

(c) initially measure a service concession asset constructed, developed or acquired by the operator or reclassified by the grantor at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*. Subsequent to the initial recognition or reclassification of the asset, the service concession asset is accounted for in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, as appropriate;

(d) recognise a corresponding liability measured initially at the fair value of the service concession asset, adjusted for any other consideration between the grantor and the operator. The liability is recognised using either or both of the following models:

    (i) the financial liability model – this model applies where the grantor has an obligation to deliver cash or another financial asset to the operator for the delivery of the service concession asset. This model requires the grantor to allocate the payments to the operator under the contract and account for them according to their substance as payments relating to the liability recognised or charges for services provided by the operator; and

    (ii) the grant of a right to the operator model – this model applies where the grantor grants the operator the right to earn revenue from third-party users of the service concession asset. This model requires the grantor to recognise a liability reflecting the unearned portion of the revenue arising from the exchange of the assets between the grantor and the operator. The grantor recognises revenue over the period of the service concession arrangement according to the substance of the arrangement and reduces the liability as the revenue is recognised; and

(e) disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of assets, liabilities, revenue and cash flows arising from service concession arrangements, by considering the disclosure of information such as the following:

    (i) a description of the arrangements;

(ii) significant terms of the arrangements that may affect the amount, timing and uncertainty of future cash flows;

(iii) the nature and extent of the grantor's rights and obligations (such as rights to receive specified services and assets from the operator, and obligations to provide the operator with access to service concession assets or other revenue-generating assets) and renewal and termination options; and

(iv) changes in arrangements during the reporting period.

Application date

This Standard applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for periods beginning before 1 January 2019.

Comparison with international pronouncements

AASB 10XY *Service Concession Arrangements: Grantors* applies to all public sector entities irrespective of whether they are for-profit or not-for-profit entities.

AASB 10XY and IPSASs

AASB 10XY is based on IPSAS 32 *Service Concession Arrangements: Grantor*. However, not-for-profit entities that comply with AASB 10XY may not be in compliance with IPSAS 32 because of differences between the Standards. The more significant differences include the following:

(a) AASB 10XY applies to public sector entities in both the for-profit and not-for-profit sectors, whereas IPSAS 32 applies only to not-for-profit public sector entities;

(b) AASB 10XY requires the grantor to initially measure a service concession asset provided by the operator at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*. IPSAS 32 specifies measurement at fair value generally;

(c) an existing asset of the grantor that is reclassified as a service concession asset is remeasured at fair value (current replacement cost) at the date of reclassification under AASB 10XY. IPSAS 32 does not require remeasurement;

(d) AASB 10XY requires the grantor to recognise a financial liability where 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 refers to such an arrangement as a ‘shadow toll’ arrangement and requires the grantor to account for the payments as an expense instead of recognising a liability;

(e) AASB 10XY provides more guidance on the term ‘public service’ than IPSAS 32; and

(f) IPSAS 32 includes additional application guidance for other revenues. Other revenues relate to compensation by the operator to the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources such as an upfront payment or a stream of payments (eg rent payments) and revenue-sharing provisions.

AASB 10XY and IFRS Standards

Entities that comply with AASB 10XY may not be in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). The IASB has issued an IFRIC Interpretation addressing the accounting by operators of service concession arrangements but has not issued a pronouncement regarding the accounting by grantors.

AASB 10XY requires a grantor to initially measure a service concession asset at current replacement cost in accordance with the cost approach to fair value in AASB 13. However, AASB 13 and the corresponding IFRS 13 *Fair Value Measurement* do not specify which valuation technique to use. Instead IFRS 13 requires the use of valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Three widely used valuation techniques set out in IFRS 13 are the market approach, the cost approach and the income approach. The requirement of AASB 10XY to initially measure a service concession asset at current replacement cost in accordance with the cost approach may not be compliant with IFRS 13. Consequently, a grantor that is a for-profit entity may not be able to make a statement that its financial statements comply with IFRS.

Accounting Standard AASB 10XY

The Australian Accounting Standards Board makes Accounting Standard AASB 10XY *Service Concession Arrangements: Grantors* under section 334 of the *Corporations Act 2001*.

Kris Peach
Dated … [date] Chair – AASB

Accounting Standard AASB 10XY
Service Concession Arrangements: Grantors

Objective

1 The objective of this Standard is to prescribe the accounting for a *service concession arrangement* by a *grantor* that is a public sector entity.

Scope (paragraphs B1–B2)

2 This Standard shall be applied to arrangements that involve an *operator* providing a public service related to a *service concession asset* on behalf of a grantor.

3 Arrangements outside the scope of this Standard include those that do not involve the delivery of a public service and arrangements that involve service and management components where the asset is not controlled by the grantor, as described in paragraph 5, or paragraph 6 for a whole-of-life asset.

4 This Standard does not specify the accounting by operators. Guidance on accounting for service concession arrangements by the operator can be found in AASB Interpretation 12 *Service Concession Arrangements*.

Recognition and measurement of service concession assets (paragraphs B12–B54)

5 The grantor shall recognise an asset provided by the operator and an upgrade to an existing asset of the grantor 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.

6 The grantor shall recognise an asset that will be used in a service concession arrangement for its entire economic life (a 'whole-of-life' asset) if the conditions in paragraph 5(a) are met.

7 The grantor shall initially measure the service concession asset recognised in accordance with paragraph 5 (or paragraph 6 for a whole-of-life asset) at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*.

8 Where an existing asset of the grantor meets the conditions specified in paragraph 5 (or paragraph 6 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset and shall remeasure the asset at current replacement cost in accordance with the cost approach to fair value in AASB 13 as at the date of reclassification. The grantor shall recognise any difference at that date between the carrying amount of the asset and its fair value (current replacement cost) as if it is a revaluation of the asset.

9 After initial recognition or reclassification, service concession assets shall be accounted for in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, as appropriate. References to fair value in other Standards shall be interpreted as references to current replacement cost for service concession assets.

Recognition and measurement of liabilities (paragraphs B55–B67)

10 Where the grantor recognises a service concession asset in accordance with paragraph 5 (or paragraph 6 for a whole-of-life asset), the grantor shall also recognise a liability. The grantor shall not recognise a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph 8, except in circumstances where additional consideration is provided by the operator, as noted in paragraph 11.

11 **The liability recognised in accordance with paragraph 10 shall be initially measured at the same amount as the service concession asset, adjusted by the amount of any other consideration (eg the transfer of an existing asset) from the grantor to the operator, or from the operator to the grantor.**

12 The nature of the liability recognised is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the *contract*.

13 In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:

(a) making payments to the operator (the 'financial liability' model); and

(b) compensating the operator by other means (the 'grant of a right to the operator' model), such as granting the operator:

(i) the right to earn revenue from third-party users of the service concession asset; or

(ii) access to another revenue-generating asset for the operator's use (eg a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Financial liability model

14 **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, the grantor shall account for the liability recognised in accordance with paragraph 10 as a financial liability.**

15 The grantor has a contractual obligation to pay cash if it has agreed to pay the operator specified or determinable amounts, such as payments relating to the following:

(a) third-party usage of a service concession asset, with or without guaranteeing a minimum amount to the operator; or

(b) the shortfall, if any, between amounts received by the operator from users of the service concession asset and any other specified or determinable amounts payable by the grantor, even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

16 AASB 9 *Financial Instruments*, AASB 132 *Financial Instruments: Presentation,* and AASB 7 *Financial Instruments: Disclosures* apply to the financial liability recognised under paragraph 10, except where this Standard provides requirements and guidance.

17 **The grantor shall allocate the payments to the operator under the contract and account for them according to their substance as payments relating to the liability recognised in accordance with paragraph 10 or charges for services provided by the operator.**

18 Charges for services provided by the operator in a service concession arrangement determined in accordance with paragraph 17 shall be accounted for in accordance with other relevant Standards.

19 Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator shall be allocated accordingly (see paragraph B47). Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator shall be determined using estimation techniques (see paragraph B48).

Grant of a right to the operator model

20 Where the grantor does not have a contractual obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and instead grants the operator the right to earn revenue from third-party users or another revenue-

generating asset, the grantor shall account for the liability recognised in accordance with paragraph 10 as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.

21 **The grantor shall recognise revenue, and accordingly reduce the liability noted in paragraph 20, according to the economic substance of the service concession arrangement (see paragraph B64).**

22 Where the grantor compensates the operator for the service concession asset and the provision of services by granting the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset, the exchange is regarded as a transaction that generates revenue. As the right granted to the operator to access the grantor's underlying service concession asset is effective for the period of the service concession arrangement, the grantor does not recognise revenue from the exchange immediately. Instead, a liability is recognised for revenue that is not yet earned. The revenue is then recognised according to the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognised.

Dividing the arrangement

23 **If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each part of the total liability recognised in accordance with paragraph 10. The amount initially recognised for the total liability shall be the same amount as that specified in paragraph 11.**

24 The grantor shall account for each part of the liability referred to in paragraph 23 in accordance with paragraphs 14–22. The financial liability part shall be measured first, and the remainder of the total liability allocated to the part related to the grant of the right to the operator (see paragraphs B66 and B67).

Other liabilities, commitments, contingent liabilities and contingent assets (paragraphs B68–B71)

25 **The grantor shall account for other liabilities, commitments, contingent liabilities and contingent assets arising from a service concession arrangement in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, AASB 9, and other relevant Standards.**

Other revenues

26 **The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 20–22, in accordance with AASB 1058 *Income of Not-for-Profit Entities* or AASB 15 *Revenue from Contracts with Customers*, as appropriate.**

Presentation and disclosure (paragraphs B72–B73)

27 **The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of assets, liabilities, revenue and cash flows arising from service concession arrangements. To achieve this, an entity shall consider disclosing qualitative and quantitative information about its service concession arrangements, including the following:**

(a) **a description of the arrangements;**

(b) **significant terms of the arrangements that may affect the amount, timing and uncertainty of future cash flows (eg the period of the arrangement, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);**

(c) **the nature and extent (eg quantity, time period, or amount, as appropriate) of:**

(i) **rights to receive specified services from the operator;**

(ii) **the carrying amount of service concession assets as at the end of the reporting period, including existing assets of the grantor reclassified as service concession assets;**

(iii) **rights to receive specified assets at the end of an arrangement;**

(iv) **renewal and termination options;**

(v) **other rights and obligations (eg major overhaul of service concession assets); and**

(vi) **obligations to provide the operator with access to service concession assets or other revenue-generating assets; and**

(d) changes in arrangements occurring during the reporting period.

28 The disclosures provided by an entity in accordance with paragraph 27 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature, in addition to disclosures required by AASB 116 and AASB 138. Service concession arrangements of a similar nature may form a subset of a class of assets disclosed in accordance with AASB 116 or AASB 138 or may be included in more than one class of assets disclosed in accordance with AASB 116 or AASB 138. For example, for the purposes of AASB 116, a toll bridge may be included in the same class as other bridges, and for the purposes of this paragraph may be included with service concession arrangements reported in aggregate as toll roads.

Commencement of the legislative instrument

29 For legal purposes, this legislative instrument commences on 31 December 2018.

Appendix A
Defined terms (paragraphs B3–B11)

This appendix is an integral part of the Standard.

contract	An agreement between two or more parties that creates enforceable rights and obligations.
grantor	The entity that grants the right to access the **service concession asset** to the **operator**.
operator	The entity that has a right of access to the **service concession asset** to provide public services.
service concession arrangement	A **contract** between a **grantor** and an **operator** in which: (a) the **operator** has the right of access to the **service concession asset** to provide public services on behalf of the **grantor** for a specified period of time; and (b) the **operator** is compensated for its services over the period of the **service concession arrangement**.
service concession asset	An asset used by the **operator** to provide public services on behalf of the **grantor** in a **service concession arrangement** that: (a) the **operator** constructs or develops, or acquires from a third party or is an existing asset of the **operator**; or (b) is an existing asset of the **grantor** or an upgrade to an existing asset of the **grantor**.

Appendix B
Application guidance

This appendix is an integral part of the Standard.

Scope (paragraphs 2–4)

B1 This Standard is informed by AASB Interpretation 12, which sets out the accounting requirements for the operator in a service concession arrangement. For example, the principles for recognition of a service concession asset are consistent with AASB Interpretation 12. However, because this Standard deals with the accounting by the grantor, this Standard addresses the issues identified in AASB Interpretation 12 from the grantor's point of view, as follows:

(a) the grantor recognises a financial liability when it is obliged to make a series of payments to the operator for provision of a service concession asset (ie constructed, developed, acquired or upgraded). Under paragraphs 12, 14 and 20 of AASB Interpretation 12, the operator recognises revenue for the construction, development, acquisition, upgrade and operation services it provides. Under paragraph 16 of AASB Interpretation 12, the operator recognises a financial asset;

(b) the grantor recognises a liability when it grants the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset. Under paragraph 17 of AASB Interpretation 12, the operator recognises an intangible asset; and

(c) the grantor derecognises an asset it grants to the operator and over which it no longer has control and reduces the liability recognised under paragraph 10 of this Standard. Under paragraph 27 of AASB Interpretation 12, the operator recognises the asset and a liability in respect of any obligations it has assumed in exchange for the asset.

B2 Paragraph 2 of this Standard specifies that an arrangement is within the scope of this Standard when it involves an operator providing a public service related to a service concession asset on behalf of a grantor. Paragraph 3 of the Standard illustrates the types of arrangements that are outside the scope of this Standard, such as arrangements that do not deliver a public service and arrangements that involve service and management components where the asset is not controlled by the grantor.

Definitions (Appendix A)

Public service

B3 Appendix A defines a service concession arrangement. A feature of a service concession arrangement is the public service nature of the obligation to be undertaken by the operator in a commercial transaction. The public service nature of the services to be provided by the service concession asset is irrespective of the identity of the party that operates the services. The service concession arrangement contractually obliges the operator to provide the services to the public on behalf of the public sector entity. Other common features of a service concession arrangement within the scope of this Standard are:

(a) the grantor is a public sector entity;

(b) the operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent of the grantor;

(c) the arrangement sets or limits the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement;

(d) the operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and

(e) the arrangement is governed by a contract that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

B4 Appendix A defines a service concession asset. Examples of service concession assets include roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, registries and databases, and other tangible or intangible assets that are expected to be used during more than one reporting period in delivering public services.

B5 For an arrangement to be within the scope of this Standard, the operator must be responsible for at least some of the management of the service concession asset and related services and not act only as an agent of the grantor. For example, an operator in an arrangement to construct and operate a hospital would need to provide services more managerial in nature than cleaning and security services for the hospital after the completion of construction for the arrangement to be considered a service concession arrangement.

B6 Assessing whether an operator provides public services related to a service concession asset on behalf of the grantor requires judgement, taking into account the specific terms and conditions of the arrangement. For example, a courthouse building with multiple purposes of courts and administrative offices may be considered to provide public services as the basic purpose of the building is to provide court services. The court services are necessary or essential to the general public and are generally expected to be provided by a public sector entity in accordance with government policy or regulation. The court services are accessible to the public, even if it is a subset of the community that uses the services. The services provided by the administrative offices may be considered ancillary services if the services are insignificant to the arrangement as a whole, and in that case would not affect the assessment that the building provides public services. The existence of ancillary activities does not detract from the grantor's control of a service concession asset.

B7 In determining whether an arrangement is within the scope of this Standard, judgement is needed to assess whether the asset provides ancillary services. For example, a hospital car park constructed by an operator as part of the arrangement to construct the hospital would be considered as part of the hospital service concession arrangement. The car park may provide ancillary services that are insignificant to the arrangement as a whole. However, if the car park was constructed under a separate arrangement to that of the hospital service concession arrangement (eg subsequent to the construction of the hospital or with a different operator), the services provided by the car park would be so significant to that arrangement as a whole that it is unlikely to be considered to be an asset that provides only ancillary services. Consequently, the car park arrangement would be assessed separately.

B8 For an asset to provide public services, it is not necessary for the public to have physical access to the asset. For example, a military base provides public services even though the public is unlikely to have physical access to the military base.

B9 A grantor assesses at the commencement of an arrangement whether an asset provides public services. The public service nature of the asset, once established, applies for the duration of the service concession arrangement. Where there is a significant modification to the terms and conditions of the arrangement, the asset should be reassessed to determine whether the asset still provides public services within the scope of this Standard. If the asset no longer provides public services, the grantor determines whether the asset continues to be recognised and accounted for under other Accounting Standards or else derecognised.

Contracts

B10 Appendix A also defines a contract. The term 'agreement' in the definition of a 'contract' encompasses an arrangement entered into under the direction of another party (eg when assets are transferred to an entity with a directive that they be deployed to provide specified services).

B11 Contracts can be written, oral or implied by an entity's customary practices in performing or conducting its activities.

Recognition and initial measurement of service concession assets (paragraphs 5–9)

Recognition of service concession assets

Control

B12 Paragraph 5 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is recognised by the grantor. Paragraph 6 of the Standard specifies the condition under which a whole-of-life asset is recognised by the grantor. The assessment of whether a service concession asset should be recognised in accordance with paragraph 5 (or paragraph 6 for a whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

B13 The fundamental principle reflected in paragraphs 5 and 6 is determining which entity controls the underlying asset or assets of a service concession arrangement. The control or regulation referred to in paragraph 5(a) could be by contract, or otherwise. If the contract specifies that the grantor controls or regulates the price, the services to be provided and to whom the operator must provide the services, the conditions specified in paragraph 5(a) are met.

B14 The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. For example, the contract may set the initial prices to be levied by the operator and regulate price revisions over the period of the service concession arrangement. If the service concession arrangement provides for the grantor to control the price, the services to be provided and to whom the services must be provided, then the grantor controls the service concession asset regardless of whether there is any regulation by a third-party regulator.

B15 Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 5(a) and any significant residual interest in the asset (as noted in paragraph 5(b)), the operator is only managing the asset on the grantor's behalf – even though, in many cases, it may have wide managerial discretion.

Regulation

B16 If a service concession contract by itself does not result in the grantor having control over the services and/or pricing of the services, the grantor may still have control of the service concession asset as a result of regulation by a third party. Regulation of what services the operator must provide, to whom it must provide them, and at what price, in the manner specified in paragraph 5(a), is a means by which a grantor can demonstrate control of the substantive benefits of the service concession asset. Grantor control of a service concession asset through regulation does not require the contract to refer to the regulation or the grantor to control or be related to the regulator. The third-party regulator might, for example, regulate other entities that operate in the same industry or sector as the grantor. This includes circumstances in which the grantor buys all of the services as well as those in which some or all of the services are bought by other users.

B17 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). Prices are controlled by the grantor in a regulated environment when a third-party regulator regulates the pricing of the services provided with a service concession asset. The regulation removes the ability of the operator to regulate the price and, for the purpose of paragraph 5(a), the pricing of the services is considered to be set implicitly by the grantor.

B18 Where a third-party regulator regulates the pricing or the services that the asset must provide (as specified in paragraph 5(a)), it is not essential for the grantor to control or direct the activities of the third-party regulator for the grantor to have control of the service concession asset. For example, a State grantor in a service concession arrangement might meet the condition specified in paragraph 5(a) even though the relevant regulation is carried out by an independent Commonwealth regulator. Furthermore, it is not necessary for the grantor to refer to the regulator in the contract. The grantor might rely on the regulator exercising its powers within the parameters applicable to the regulator at the inception of the contract.

B19 Many governments have the power to regulate the behaviour of entities operating in certain sectors of the economy, either directly or through specifically created agencies. For the purpose of paragraph 5(a), such broad regulatory powers do not constitute control. In this Standard, the term 'regulate' is intended to be applied only in the context of the terms and conditions of the service concession arrangement. For example, a regulator of rail services may determine rates that apply to the rail industry as a whole. Depending on the legal framework in a jurisdiction, such rates may be implicit in the contract governing a service concession arrangement involving the provision of railway transportation, or they may be specifically referred to therein. However, in both cases, the control of the service concession asset is derived from either the contract or the specific regulation applicable to rail services and not from the fact that the grantor is a public sector entity that is related to the regulator of rail services.

B20 Where a service concession arrangement does not clearly fall within an existing regulatory framework (eg where there is more than one possible source of regulation), the arrangement will need to incorporate the specific regulatory framework that stipulates the services, the users and/or the pricing to be charged for the services in order for the requirements of paragraph 5(a) to be met.

B21 For a grantor to control any of the factors listed in paragraph 5(a) through third-party regulation, the regulation must be substantive. Non-substantive features, such as a cap that will apply only in remote circumstances, shall be ignored. Conversely, if, for example, an arrangement purports to give the operator freedom to set prices but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

B22 Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph 5(a) and partly unregulated. These arrangements may take a variety of forms, such as:

(a) any asset that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in AASB 136 *Impairment of Assets* is analysed separately to determine whether the condition set out in paragraph 5(a) is met if it is used wholly for unregulated purposes (eg this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and

(b) when purely ancillary activities (such as a hospital shop) are unregulated, the control tests shall be applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 5(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

B23 There may be arrangements that include unregulated services that are neither purely ancillary nor delivered by using a physically separable portion of the total asset. For example, a grantor may control prices charged to children and seniors at a sports facility but the amounts charged to adults are not controlled. The same facilities are being used by all, regardless of the amount they pay. Alternatively, prices could be regulated by the grantor for services provided at certain times of the day rather than for different classes of users. In such cases, it will be a matter of judgement whether enough of the service is regulated in order to demonstrate that the grantor has control of the asset.

B24 The operator may have a right to use the separable asset described in paragraph B22(a), or the facilities used to provide ancillary unregulated services described in paragraph B22(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it shall be accounted for in accordance with AASB 16 *Leases*.

Control concept in other Australian Accounting Standards

B25 If an asset meets the conditions in paragraph 5 (or paragraph 6), the grantor has the right to control the use of the asset and therefore recognises the asset in accordance with this Standard. An asset that does not meet the control criteria of this Standard is assessed to determine whether it is recognised under another Accounting Standard, such as AASB 116, AASB 138 or AASB 16. The Implementation Guidance to this Standard contains a table that highlights the continuum of typical arrangements and relevant accounting requirements.

Long-term leases, outsourcing or privatisation

B26 Assessment of whether long-term leasing, outsourcing, service and privatisation arrangements are within the scope of this Standard addresses whether the 'grantor' entity controls the underlying asset(s) of the arrangement in accordance with the control criteria of paragraph 5 (or paragraph 6). For example:

(a) if the grantor does not retain control of an existing asset under such an arrangement, the grantor considers whether to derecognise the asset as a sale or privatisation; or

(b) if the grantor retains control of an existing asset and gives the 'operator' the right to use the asset, or the operator controls an asset and gives the grantor the right to use the asset, the grantor considers whether to recognise a lease in relation to the asset as lessor or lessee respectively.

Changes in control

B27 The grantor's control of the service concession asset may change during the term of the service concession arrangement. The change in the grantor's control of the asset may arise from changes in the terms of the service concession contract, or changes in third-party regulation of the price and/or services.

B28 Where the grantor's control of the asset changes, the grantor assesses whether the asset is still within the scope of this Standard or becomes within the scope of the Standard. Where the grantor no longer has control of the asset in accordance with this Standard, the grantor determines whether the asset continues to be recognised and accounted for under other Accounting Standards or else derecognised.

Residual interest

B29 The grantor must also control through ownership, beneficial entitlement or otherwise any significant residual interest in the asset at the end of the term of the arrangement – this is the control criterion in paragraph 5(b).

B30 For the purpose of paragraph 5(b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset (by recognising the grantor's residual interest in the asset) and give the grantor control of the asset throughout the period of the service concession arrangement. The residual interest in the asset is the estimated fair value (current replacement cost) of the asset, determined at the inception of the arrangement, as if it were already of the age and in the condition expected at the end of the service concession arrangement.

B31 Paragraph 5 identifies whether the asset, including any replacements required, is controlled by the grantor for the whole of its economic life, beyond the term of the service concession arrangement. For example, if the operator has to replace part of an asset during the period of the arrangement (eg the top layer of a road or the roof of a building), the asset shall be considered as a whole. Thus the condition in paragraph 5(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

Whole-of-life asset

B32 For the purpose of paragraph 6, a whole-of-life asset is an asset that will be used in a service concession arrangement for either its entire economic life or the major part of its economic life. In both cases, there is no significant residual interest in the asset at the end of the arrangement, so that the control criterion in paragraph 5(b) is not relevant.

Existing asset of the grantor

B33 The arrangement may involve an existing asset of the grantor:

(a) to which the grantor gives the operator access for the purpose of the service concession arrangement; or

(b) to which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.

B34 Existing assets of the grantor used in the service concession arrangement shall be reclassified under this Standard as service concession assets. The grantor shall recognise the following as a service concession asset in accordance with paragraph 5 (or paragraph 6 for a whole-of-life asset):

(a) the upgrade of an existing asset of the grantor (eg an increase in capacity); and

(b) an intangible asset of the grantor that has not been recognised previously by the grantor.

B35 In applying the impairment tests to service concession assets accounted for under the cost model in AASB 116 or AASB 138, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor shall refer to AASB 136 to determine whether any of the indicators of impairment have been triggered under such circumstances. AASB 136 does not apply to service concession assets that are regularly revalued to fair value (current replacement cost) under the revaluation model in AASB 116 or AASB 138.

B36 If the asset no longer meets the conditions for recognition in paragraph 5 (or paragraph 6 for a whole-of-life asset), the grantor shall follow the derecognition principles in AASB 116 or AASB 138, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it shall be derecognised. Alternatively, the grantor may be required to derecognise the asset when it or a third-party regulator no longer regulates the pricing, but rather allows the operator to freely set prices for use of the service concession asset.

B37 If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognised. In such cases, the grantor shall also consider whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with AASB 16.

Existing asset of the operator

B38 The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired for the purpose of the arrangement. If the arrangement involves an existing asset of the operator that the operator uses for the purpose of the service concession arrangement, the grantor shall determine whether the asset meets the conditions in paragraph 5 (or paragraph 6 for a whole-of-life asset). If the conditions for recognition are met, the grantor shall recognise the asset as a service concession asset and account for it in accordance with this Standard.

Constructed or developed asset

B39 When a constructed or developed asset meets the conditions in paragraph 5 (or paragraph 6 for a whole-of-life asset), the grantor shall recognise and measure the asset in accordance with this Standard. This recognition also depends on the asset meeting the recognition criteria in AASB 116 or AASB 138:

(a) AASB 116 requires that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(i) it is probable that future economic benefits associated with the asset will flow to the entity; and

(ii) the cost of the item can be measured reliably;

(b) AASB 138 requires that an intangible asset shall be recognised if, and only if:

(i) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(ii) the cost of the asset can be measured reliably.

B40 Those criteria, together with the terms and conditions of the contract, need to be considered by the grantor in determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. For both property, plant and equipment and intangible assets, if the recognition criteria are met during the construction or development period, the grantor recognises the service concession asset during that period.

B41 The first recognition criterion requires the flow of economic benefits to the grantor. According to the *Framework for the Preparation and Presentation of Financial Statements*, as identified in AASB 1048 *Interpretation of Standards*, for not-for-profit entities, future economic benefits are synonymous with the notion of service potential. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the public sector grantor. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the contract to determine whether, in addition to retaining control of the land on which the service concession asset is being developed, economic benefits embodied in the service concession asset flow to the grantor at that time.

B42 The second recognition criterion requires that the cost of the asset can be measured reliably. Accordingly, to meet the recognition criteria in AASB 116 or AASB 138, as appropriate, the grantor must have reliable information about the cost of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in AASB 116 for constructed assets or in AASB 138 for developed intangible assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the service concession arrangement, the costs shall be recognised as progress is made towards completion of the asset. Thus, the grantor shall recognise a service concession asset and an associated liability.

Measurement of service concession assets

B43 Paragraph 7 requires service concession assets recognised in accordance with paragraph 5 (or paragraph 6 for a whole-of-life asset) to be measured initially at current replacement cost. This is in accordance with the cost approach to fair value in AASB 13. In particular, the cost approach is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement to measure the asset at current replacement cost also applies to existing assets of the grantor that are reclassified as service concession assets, in accordance with paragraph 8 of this Standard. The use of fair value (current replacement cost) on initial recognition or reclassification of a service concession asset does not constitute a revaluation under AASB 116 or AASB 138. Therefore, future revaluations of the asset are not required unless the entity adopts the revaluation model under the relevant Standard.

Types of compensation

B44 Service concession arrangements are rarely, if ever, the same: technical requirements vary by sector and by jurisdiction. Furthermore, the terms of the arrangement may also depend on the specific features of the overall legal framework, including contract law, of the particular jurisdiction.

B45 Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) making payments (eg cash) to the operator; and

(b) compensating the operator by other means, such as:

(i) granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) granting the operator access to another revenue-generating asset for its use.

B46 When the grantor compensates the operator for the service concession asset by making payments to the operator, the asset and service components of the payments may be separately identifiable (eg the contract specifies the amount of the predetermined series of payments to be allocated to the service concession asset). The asset and service components of the service concession arrangement are accounted for separately, in accordance with paragraph 19.

Separately identifiable payments

B47 A service concession arrangement may have separately identifiable asset and service components of the payments in a variety of circumstances, including, but not limited to, the following:

(a) part of a payment stream that varies according to the availability of the service concession asset itself and another part that varies according to usage or performance of certain services can be identified;

(b) different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or

(c) different components of the service concession arrangement can be renegotiated separately. For example, a service component is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

Payments not separately identifiable

B48 For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the service concession asset and those for other components of the service concession arrangement (eg maintenance and operation services) on the basis of their relative fair values. The fair value (current replacement cost) of the service concession asset represents amounts related to the asset and excludes other components of the service concession arrangement. In some cases, identifying payments for the asset and payments for other components of the service concession arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to the fair value of a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator receives other forms of compensation

B49 The types of compensation transactions referred to in paragraph 13(b) are non-monetary exchange transactions. Paragraph 24 of AASB 116 and paragraph 45 of AASB 138, as appropriate, provide guidance on these circumstances.

B50 When the operator is granted the right to earn revenue from third-party users of the service concession asset, or from another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the service concession asset. These forms of consideration to the operator may be intended to compensate the operator both for the cost of the service concession asset and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph 7.

Fair value measurement

B51 A service concession asset is a specialised asset that is obtained through construction, development or acquisition, or the upgrade of an existing asset, to provide public services in a service concession arrangement. The capacity or service potential of the asset is used to achieve public service objectives irrespective of whether the cost of the asset will be recovered by the expected cash flows that the asset may generate. The asset is initially measured at fair value, which is the current replacement cost under the cost approach. The current replacement cost reflects the amount that would be required at the time to replace the service capacity of an asset.

B52 A service concession asset is measured initially at current replacement cost, whether the liability is measured under the financial liability model or the grant of the right to the operator model. When the financial liability model is relevant to the service concession arrangement, the current replacement cost of the asset may be assessed in relation to the payments that the grantor is contractually obliged to pay the operator in exchange for the asset. When the grant of the right to the operator model is relevant to the service concession arrangement, the current replacement cost may be assessed in relation to the amount required to construct, develop, acquire or upgrade the asset.

Subsequent measurement

B53 For consistency with the approach to the initial measurement of service concession assets recognised in accordance with this Standard, references to fair value in other Standards shall be interpreted as references to current replacement cost for service concession assets.

B54 After initial recognition, a grantor applies AASB 116 or AASB 138 to the subsequent measurement and derecognition of a service concession asset and to subsequent costs incurred. For the purposes of applying AASB 116 or AASB 138, service concession assets of a similar nature may form a subset of a class, or classes, of assets. Subsequent costs include lifecycle costs incurred to maintain the asset or to replace components of the asset during the concession period, such as the cost to periodically resurface a road during the operating and maintenance phase of the service concession arrangement. AASB 136 is also applied in considering whether there is any indication that a service concession asset that is accounted for under the cost model is impaired. The reference to fair value in AASB 136 for such assets refers to the current replacement cost of the asset.

Recognition and measurement of liabilities (paragraphs 10–24)

B55 The grantor recognises a liability in accordance with paragraph 10 only when a service concession asset is recognised in accordance with paragraph 5 (or paragraph 6 for a whole-of-life asset). The nature of the liability recognised in accordance with paragraph 10 differs in the circumstances described in paragraphs B45(a) and (b) according to their substance. However, in each case, the liability recognised in accordance with paragraph 10 shall be initially measured at the same amount as the service concession asset, being the fair value (current replacement cost) of the asset in accordance with AASB 13.

Financial liability model

B56 When the grantor has a contractual obligation to make a predetermined series of payments to the operator, the liability is a financial liability as defined in AASB 9. The grantor has a contractual obligation if it has little, if any, discretion to avoid the obligation, which is usually the case because a contract with an operator normally is enforceable by law. For example, when an arrangement involves the grantor making payments to the operator for third-party usage of the service concession asset, the grantor accounts for the liability in the arrangement as a financial liability, regardless of whether the grantor has contractually agreed to provide a minimum guaranteed amount to the operator.

B57 When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, an amount reflecting the fair value (current replacement cost) of the service concession asset is recognised as a liability in accordance with paragraph 10. The grantor shall use the contractually specified interest rate in the arrangement to initially measure the financial liability component of a hybrid arrangement in accordance with AASB 9. If it is not practicable to determine the contractually specified interest rate, the grantor shall determine an appropriate rate using the prevailing market rate(s) of interest for a similar instrument with a similar credit rating. Examples of rates for a similar instrument include the operator’s cost of capital specific to the service concession asset, the grantor’s incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement.

B58 After initial recognition, the grantor applies AASB 9 to the subsequent measurement of a financial liability. Where there is a difference between the expected payments and the actual payments by the grantor to the operator based on third-party usage of the asset, the difference is accounted for as an expense or revenue in the period in which it arises.

B59 When the grantor makes any payments to the operator in advance of the service concession asset being recognised, the grantor accounts for those payments as prepayments.

B60 When the financial liability is subsequently measured at amortised cost in accordance with AASB 9, the finance charge is determined based on the effective interest method. When the financial liability is subsequently measured at fair value through profit or loss, AASB 9 requires the fair value movements in the financial liability to be recognised as a gain or loss in profit or loss.

B61 The finance charge (if any) related to the liability in a service concession arrangement is presented consistently with other finance charges in accordance with AASB 101 *Presentation of Financial Statements*, AASB 123 *Borrowing Costs* and AASB 7 *Financial Instruments: Disclosures*.

B62 The financial liability does not include the grantor's payments to the operator for service components identified in paragraph 17. The service component of payments is normally recognised as expenses (and as liabilities prior to payment) as the services are provided.

Grant of a right to the operator model

B63 Under the grant of a right to the operator model, the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset.

B64 Revenue is not recognised immediately by the grantor at the inception of the service concession arrangement. Instead, a liability is recognised (as noted in paragraph 20) and subsequently reduced as revenue is recognised in accordance with paragraph 21 based on the economic substance of the service concession arrangement. Revenue is usually recognised as access to the service concession asset is provided to the operator over the term of the service concession arrangement. Paragraph B45 states that the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In cases where the operator's right to earn third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (eg the term over which the grantor's future predetermined series of payments are reduced or eliminated).

B65 When the grantor compensates the operator for the service concession asset and services by the provision of a revenue-generating asset, other than the service concession asset, the liability noted in paragraph 20 is reduced and revenue recognised in a manner similar to that described in paragraph B64. In such cases, the grantor also considers the derecognition requirements in AASB 116 or AASB 138, as appropriate. If the grantor derecognises the revenue-generating asset, the service concession liability is reduced accordingly.

Dividing the arrangement

B66 If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from third-party use of either the service concession asset or another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or another revenue-generating asset.

B67 Arrangements described in paragraph B66 are commonly referred to as hybrid arrangements. Consistent with paragraph 11, the liability recognised for a hybrid arrangement is initially measured at the same amount as the fair value (current replacement cost) of the service concession asset. The financial liability portion of the liability under the hybrid arrangement is measured first, with the remainder of the fair value (current replacement cost) of the service concession asset allocated to the portion of the liability relating to the grant of the right to the operator model. The liability measured under the financial liability model is determined in accordance with paragraph B57.

Other liabilities, commitments, contingent liabilities and contingent assets (paragraph 25)

B68 Service concession arrangements may include various forms of financial guarantees (eg a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development, acquisition or upgrade of a service concession asset) or performance guarantees (eg a guarantee of minimum revenue streams, including compensation for shortfalls).

B69 The grantor determines whether guarantees provided by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract. If so, the grantor applies AASB 7, AASB 9 and AASB 132 in accounting for the guarantee. Where the guarantee is regarded as an insurance contract, the grantor can elect to apply AASB 4 *Insurance Contracts* or AASB 1023 *General Insurance Contracts* instead if it has previously used accounting applicable to insurance contracts for such guarantees.

B70 Guarantees and commitments that do not meet the requirements in AASB 9 and AASB 132 relating to financial guarantee contracts and are not accounted for as insurance contracts are accounted for in accordance with AASB 137.

B71 Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with AASB 137.

Presentation and disclosure (paragraphs 27–28)

B72 Disclosures relating to various aspects of service concession arrangements may be addressed in existing Standards. This Standard addresses only the additional disclosures relating to service concession arrangements. Where the accounting for a particular aspect of a service concession arrangement is addressed in another Standard, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraphs 27 and 28. The grantor also applies the relevant presentation and disclosure requirements in other Standards as they pertain to assets, liabilities, revenues, and expenses recognised under this Standard.

B73 AASB 101 requires finance costs (if any) to be presented separately in the statement of profit and loss and other comprehensive income. Finance charges (if any) determined in accordance with paragraph B60 that are expensed are included in this item.

Appendix C
Effective date and transition

This appendix is an integral part of the Standard.

Effective date

C1 An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for periods beginning before 1 January 2019. If an entity applies this Standard for an earlier period, it shall disclose that fact.

Transition

C2 For the purposes of the transition requirements, the date of initial application is the beginning of the earliest reporting period for which comparative information is presented in the financial statements.

C3 A grantor shall apply this Standard either:

(a) retrospectively to each prior period presented in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively by recognising and measuring service concession assets and related liabilities at the date of initial application.

C4 If a grantor elects to apply this Standard retrospectively in accordance with paragraph C3(b), the grantor shall:

(a) measure the deemed cost of a service concession asset (including an existing asset of the grantor reclassified as a service concession asset) at fair value (current replacement cost) at the date of initial application;

(b) measure a financial liability arising under a service concession arrangement in accordance with this Standard at the date of initial application;

(c) measure a liability representing the unearned portion of any revenue arising from the receipt of a service concession asset under the grant of a right to the operator model at the fair value (current replacement cost) of the related service concession asset at the date of initial application, adjusted to reflect the remaining period of the service concession arrangement relative to the remaining economic life of the asset, less any related financial liabilities measured in accordance with paragraph (b);

(d) recognise any net adjustments to the amounts of assets and liabilities as an adjustment to the opening balance of accumulated surplus (deficiency) at the date of initial application; and

(e) disclose that it has applied this transition approach and information relating to the measurement of the assets and liabilities in support of the disclosure objective in paragraph 27.

C5 Retrospective application of this Standard in accordance with either paragraph C3(a) or C3(b) may require the derecognition or adjustment of any service concession assets and liabilities recognised under previous accounting policies or the initial recognition of service concession assets and liabilities. Any net adjustment on initial application of this Standard is recognised as an adjustment to the opening balance of accumulated surplus (deficiency). If the grantor chooses the revaluation model in AASB 116 or AASB 138 as its accounting policy, the net adjustment is included in accumulated surplus (deficiency) and not revaluation surplus.

C6 The initial measurement of service concession assets at fair value (current replacement cost) does not mean that the assets are measured under the revaluation model. Subsequent revaluations are not required unless the grantor applies the revaluation model as its accounting policy.

C7 If a grantor applies this Standard retrospectively in accordance with paragraph C3(b), the measurement of liabilities arising under the financial liability model at the date of initial application is addressed in paragraph C4(b). Paragraph C4(c) addresses liability measurement under both the grant of a right to the operator model and hybrid arrangements, as it requires the measurement of the liability relating to the grant of a right to the operator to exclude any related financial liabilities.

References to AASB 9

C8 If an entity applies this Standard but does not yet apply AASB 9, any reference in this Standard to AASB 9 shall be read as reference to AASB 139 *Financial Instruments: Recognition and Measurement.*

Appendix D
Amendments to other Standards

This appendix sets out the amendments to other Australian Accounting Standards that are a consequence of the AASB issuing this Standard.

[No necessary amendments to other Standards have been identified. This Appendix will be deleted if there are no consequential amendments.]

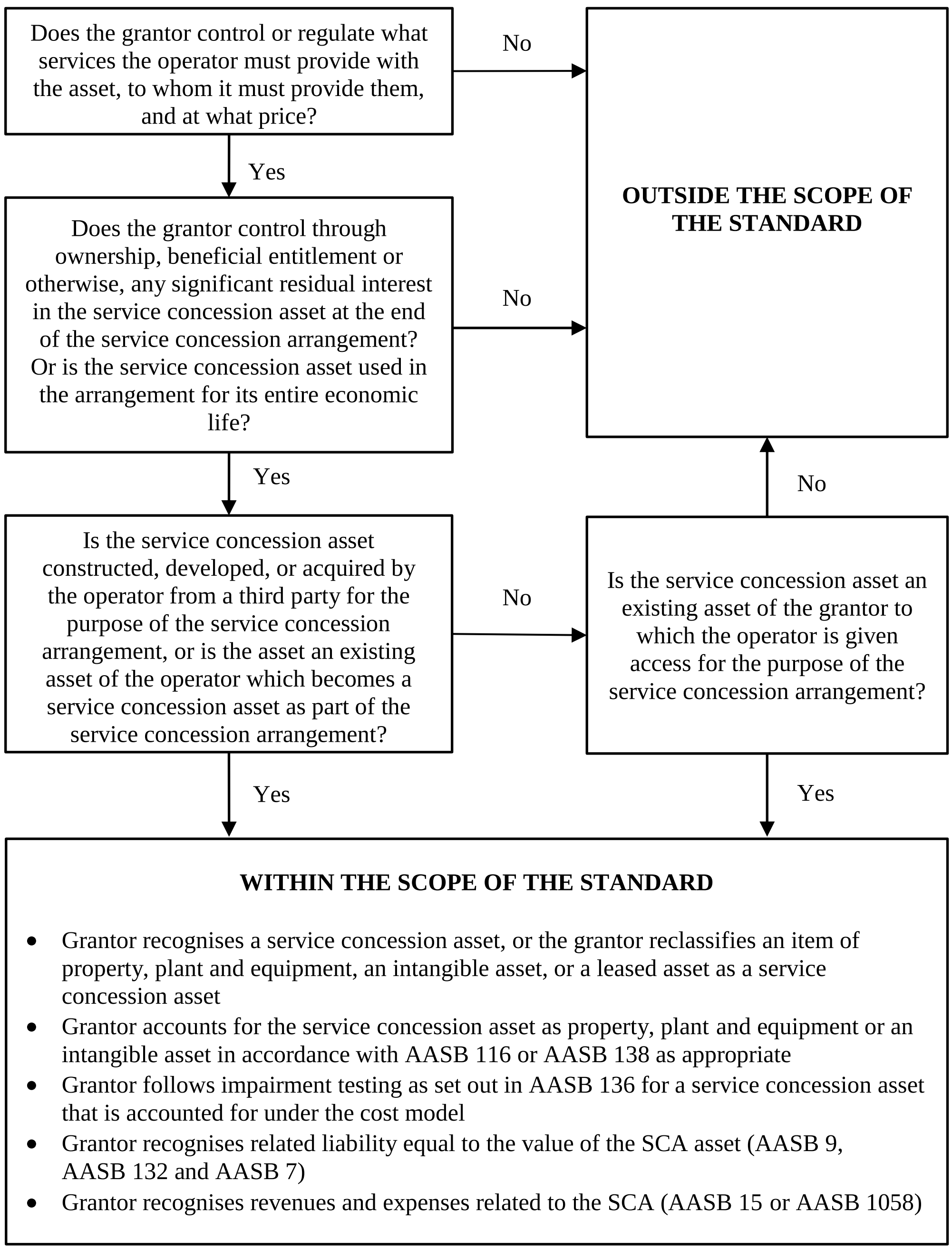
Implementation guidance

This implementation guidance accompanies, but is not part of, AASB 10XY.

IG1 The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of AASB 10XY.

Accounting framework for service concession arrangements

IG2 The diagram below summarises the accounting for service concession arrangements established by AASB 10XY.



References to Australian Accounting Standards that apply to typical types of arrangements involving an asset combined with provision of a service

IG3 The table sets out the typical types of arrangements for private sector participation in the provision of public sector services and provides references to Accounting Standards that may apply to those arrangements. The list of arrangement types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements. It is not the AASB's intention to convey the impression that bright lines exist between the accounting requirements for various types of arrangements.

IG4 The shaded text shows arrangements within the scope of AASB 10XY.

Category	**Lessee**	**Service provider**			**Owner**	
Typical arrangement types	Lease (e.g. operator leases asset from grantor)	Service and/or maintenance contract (specific tasks eg debt collection, facility management)	Rehabilitate-operate-transfer	Build-operate-transfer	Build-own-operate	100% Divestment/ Privatisation/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25-30 years			Indefinite (or may be limited by contract or licence)
Significant residual interest	Grantor				Operator	
Relevant Accounting Standards	AASB 16	AASB 101	This Standard/ AASB 116/ AASB 138		AASB 116/ AASB 138 (derecognition)	

Illustrative examples

These illustrative examples accompany, but are not part of, AASB 10XY.

IE1 These examples consider only three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible:

(a) it is assumed in Examples 1–2 that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase over time; and

(b) Example 3 presents only relevant terms of the arrangement that illustrate the requirements for dividing the liability under a hybrid service concession arrangement into the financial liability and the grant of the right to the operator liability.

IE2 In these examples, monetary amounts are denominated in 'currency units' (CU).

Arrangement terms (common to Examples 1–2)

IE3 These terms are common to the two examples that follow.

IE4 The terms of the arrangement require an operator to construct a road – completing construction within two years – and maintain and operate the road to a specified standard for eight years (ie years 3–10). The arrangement is within the scope of this Standard and the road meets the conditions for recognition of a service concession asset in paragraph 5.

IE5 The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value (current replacement cost) of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

IE6 It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in AASB 116 when the service concession asset is initially recognised. The road surface is therefore recognised as a separate component of the initial fair value (current replacement cost) of the service concession asset and depreciated over years 3–8. This depreciation period is shorter than that for the road base, and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

IE7 Recognition of the replacement component of the road surface as a separate component of the service concession asset in year 8 also results in an increase in the liability recognised by the grantor. Where the liability relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognised evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it would be appropriate to instead recognise revenue relevant to that improvement only once it has occurred.

IE8 At the beginning of year 3, the total fair value (current replacement cost) of the road is CU1,050, comprised of CU940 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with AASB 116). The estimated life of surface layers (ie, six years) is also used to estimate the depreciation of the replacement component in years 9 and 10.

IE9 The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore CU38 (CU940/25) for the base layers. The surface layers are depreciated over 6 years (years 3–8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is CU18 (CU110/6).

IE10 The effective interest rate in the service concession arrangement is 6.18 per cent per year.

IE11 It is assumed that all cash flows take place at the end of the year.

IE12 It is assumed that the time value of money is not significant.

IE13 At the end of year 10, the arrangement will end and the operator will transfer the operation of the road to the grantor.

IE14 The total compensation to the operator under each of the two examples is inclusive of each of the components of the service concession arrangement and reflects the fair values (current replacement cost) for each of the services, which are set out in Table 1.

IE15 The grantor's accounting policy for:

(a) property, plant, and equipment is to recognise such assets using the revaluation model specified in AASB 116. It is assumed that there are no changes in the fair value of the service concession assets during the service concession arrangement. Assessment of impairment under AASB 136 is not applicable as the asset is accounted for under the revaluation model; and

(b) the financial liability is to subsequently measure the financial liability at amortised cost using the effective interest method.

Table 1 Fair values of the components of the arrangement (currency units)

Contract component	Fair value
Road – base layers	940
Road – original surface layers	110
Total fair value of road	1,050
Annual service component	12
Effective interest rate	6.18%

Example 1: The grantor makes a predetermined series of payments to the operator

Additional terms

IE16 The terms of the arrangement require the grantor to pay the operator CU200 per year in years 3–10 for making the road available to the public. The total consideration (payment of CU200 in each of years 3–10) reflects the fair values (current replacement cost) for each of the services indicated in Table 1. These payments are intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial statement impact

IE17 The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value measured at current replacement cost (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognised as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers), starting from year 3.

IE18 The grantor initially recognises a financial liability equal to the fair value (current replacement cost) of the service concession asset under construction at the end of year 1 (CU525). The liability is increased at the end of year 2 to reflect both the fair value of the additional construction (CU525) and the finance charge on the outstanding financial liability. Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the annual payment that reduces the liability each period. A finance charge at the effective interest rate of 6.18 per cent is recognised annually. The liability is subsequently measured at amortised cost, that is, the amount initially recognised plus the finance charge on that amount calculated using the effective interest method, minus repayments. The liability excludes the annual operating costs of CU12, as the service component of the arrangement represents an equally proportionately unperformed contract.

IE19 The compensation for the road resurfacing is included in the predetermined series of payments. There is no additional direct cash flow impact related to the road resurfacing; however, the grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of CU110/6 = CU18, beginning in year 9.

IE20 The compensation for maintenance and operating the road (CU12) is included in the predetermined series of payments. There is no additional cash flow impact related to this service expense; however, the grantor recognises an expense annually.

Overview of cash flows, statement of profit and loss and other comprehensive income, and statement of financial position

IE21 The grantor's cash flows, statement of profit and loss and other comprehensive income, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

Table 1.1 Cash flows (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/(outflow)	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table 1.2 Statement of profit and loss and other comprehensive income (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	(32)	(67)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(344)
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)
Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	–	(32)	(135)	(128)	(119)	(111)	(103)	(93)	(90)	(80)	(891)

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially constructed road surface. It is fully depreciated over that period. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
2. Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 60 of AASB 116 requires that, "The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity." Likewise, for intangible assets, paragraph 97 of AASB 138 requires that, "The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.".

Table 1.3 Statement of financial position (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	(525)	(1,082)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/(deficit)	–	(32)	(167)	(295)	(414)	(525)	(628)	(721)	(811)	(891)

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with AASB 116 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9–10 reflect deprecation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 1.4 Changes in the financial liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	525	1,082	961	832	695	550	396	343	177
Liability recognised along with initial service concession asset	525	525	–	–	–	–	–	–	–	–
Finance charge added to liability prior to payments being made	–	32	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(121)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognised along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	525	1,082	961	832	695	550	396	343	177	–

Example 2: The grantor grants the operator the right to charge users a toll for use of the road

Additional arrangement terms

IE22 The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU200 in each of years 3–10. The total consideration (tolls of CU200 in each of years 3–10) reflects the fair values (current replacement cost) for each of the services indicated in Table 1, and is intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial statement impact

IE23 The grantor initially recognises the service concession asset as property, plant, and equipment at its fair value (current replacement cost) (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognised as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is recognised annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers, starting in year 3).

IE24 As consideration for the service concession asset, the grantor recognises a liability under the grant of a right to the operator model for granting the operator the right to collect tolls of CU200 in years 3 – 10. The liability is recognised as the asset is recognised.

IE25 The liability is reduced over years 3–10, and the grantor recognises revenue on that basis because access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement from the point at which the asset is capable of providing economic benefits.

IE26 The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no additional cash flow impact related to the road resurfacing; however, the grantor recognises the resurfacing as an asset when the work is undertaken and recognises depreciation expense of CU110/6 = CU18, beginning in year 9.

IE27 The compensation for maintenance and operating the road (CU12) is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash inflow or outflow. It is not recognised as an operating expense because the fair value (current replacement cost) of the asset and liability initially recognised do not include any service costs the operator may incur.

Overview of cash flows, statement of profit or loss and other comprehensive income, and statement of financial position

IE28 The grantor's cash flows, statement of profit and loss and other comprehensive income, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 2.1 to 2.2. In addition, Table 2.3 shows the changes in the liability.

IE29 Because no payments are made by the grantor to the operator, there are no cash flow impacts for this example.

Table 2.1 Statement of profit and loss and other comprehensive income (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	–	–	145	145	145	145	145	145	145	145	1,160
Depreciation – base layers	–	–	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(304)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(18)	(19)	(37)
Total depreciation	–	–	(56)	(57)	(56)	(56)	(57)	(56)	(56)	(57)	(451)
Annual surplus/(deficit)	–	–	89	88	89	89	88	89	89	88	709

NOTES:

1. Depreciation in years 3–8 reflects the depreciation on the initially - constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognised in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.2).
4. All revenue is recognised evenly over the term of the arrangement.

Table 2.2 Statement of financial position (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	525	940	902	864	826	788	750	712	674	636
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	92	73
Total service concession asset	525	1,050	994	937	881	825	768	822	766	709
Cash	–	–	–	–	–	–	–	–	–	–
Liability	(525)	(1,050)	(905)	(760)	(615)	(470)	(325)	(290)	(145)	–
Cumulative surplus/(deficit)	–	–	89	177	266	355	443	532	621	709

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially constructed road surface would not be fully depreciated, and would need to be derecognised in accordance with AASB 116 before the new component of the service concession asset related to the resurfacing is recognised.
2. The new component of the service concession asset related to the resurfacing is recognised in year 8. Years 9–10 reflect deprecation on this additional component (Table 2.1).
3. The liability is increased in year 8 for the recognition of the new component of the service concession asset.

Table 2.3 Changes in the liability (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Balance brought forward	–	525	1,050	905	760	615	470	325	290	145
Liability recognised along with initial service concession asset	525	525	–	–	–	–	–	–	–	–
Revenue (reduction of liability)	–	–	(145)	(145)	(145)	(145)	(145)	(145)	(145)	(145)
Liability recognised along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	525	1,050	905	760	615	470	325	290	145	–

Example 3: Allocation of liabilities in a hybrid arrangement

IE30 Example 3 illustrates the requirements in paragraphs 23–24 and B66–B67 for dividing a hybrid service concession arrangement by measuring the financial liability part first and then allocating the remainder of the total liability to the part related to the grant of the right to the operator.

Arrangement terms

IE31 The relevant terms of the arrangement in the example are:

(a) the operator is required to construct a road – completing construction within two years – and maintain and operate the road to a specified standard for eighteen years (ie years 3–20);

(b) the grantor is required to pay the operator CU100 for eight years (ie years 3–10) for making the road available to the public. These payments are intended to partially cover the cost of constructing the road. It is assumed all cash flows take place at the end of the year and that the grantor's incremental borrowing rate is 4%. The present value of the payments is CU673. However, unlike a typical loan, the grantor incurs the liability two years before cash payments commence from year 3. Consequently, the effective interest rate for the financial liability is 3.2%, reflecting this timing difference. The grantor's accounting policy for the financial liability is to subsequently measure the financial liability at amortised cost using the effective interest method;

(c) the operator is permitted to collect tolls from drivers using the road for eighteen years (ie years 3–20);

(d) the initial fair value (current replacement cost) of the service concession asset is CU1,800, once construction is complete at the end of the second year; and

(e) at the end of year 20, the arrangement will end, and the operator will transfer the operation of the road to the grantor.

IE32 The arrangement is within the scope of this Standard and the road meets the conditions for recognition as a service concession asset in paragraph 5 (or paragraph 6 for a whole-of-life asset).

Financial statement impact

IE33 It is necessary to divide the grantor's consideration to the operator into two parts – the financial liability for the predetermined payments and the liability related to the grant of the right to the operator to charge tolls.

IE34 The grantor recognises:

(a) the service concession asset as property, plant and equipment at current replacement cost in accordance with the cost approach to fair value (current replacement cost) in AASB 13 (total CU1,800) related to construction of the road (CU900 in both year 1 and year 2);

(b) the total liability equal to the same amount as the current replacement cost of the service concession asset (total CU1,800). The total liability is allocated:

(i) in year 1 – first to the financial liability measured at its fair value. In this example, the present value of the grantor's payments to the operator (CU673) is a suitable estimate of the fair value, with the remainder to the liability under the grant of the right to the operator model for the right to collect tolls (CU227); and

(ii) in year 2 – to the liability under the grant of the right to the operator model for the right to collect tolls (CU900) as the remainder of the total liability; and

(c) a finance charge (CU22) in year 2 relating to the financial liability in year 1.

IE35 The journal entries for the accounting treatment in IE34 are:

	Debit	Credit
End of year 1	CU	CU
Service concession asset	900	
Financial liability		673
Liability		227
End of year 2		
Service concession asset	900	
Liability		900
Finance charge	22	
Financial liability		22

Example 4: Transition – measuring the liability under the grant of rights to the operator model at the date of initial application

IE36 In accordance with the transition requirements set out in Appendix C of the Standard, a grantor may elect to apply the Standard retrospectively by recognising and measuring service concession assets and related liabilities at the date of initial application. The date of initial application is the beginning of the earliest reporting period for which comparative information is presented in the financial statements.

IE37 This example illustrates the approach set out in paragraph C4(c) to measuring a liability under the grant of a right to the operator model at the date of initial application. The liability related to the grant of a right to the operator is required to be measured at the fair value (current replacement cost) of the related service concession asset at the date of initial application, adjusted to reflect the remaining period of the service concession arrangement relative to the remaining economic life of the asset, less any related financial liabilities.

IE38 Assuming that the service concession arrangement in this example does not also give rise to a financial liability for the grantor, the information needed for measuring the liability is illustrated in the following table:

Table 4 Estimates at the date of initial application

Parameter	Amount or period
Fair value (current replacement cost) of the service concession asset	CU1,200
Remaining economic life of the asset	20 years
Remaining service concession period	10 years
Apportionment for the liability re grant of rights to the operator	CU1,200 x 10/20 = CU600

IE39 If the service concession arrangement is a hybrid arrangement, then the financial liability would be measured separately under the financial liability model at the date of initial application. The amount of the financial liability would then be deducted from the apportioned amount for the liability re the grant of rights to the operator as per the table in order to derive the amount to be recognised for the liability.

IE40 The measurement approach illustrated in this example is a simplified transition method, as it does not require the service concession asset or the liability to be measured at the inception of the service concession arrangement, as would be required under the full retrospective transition method.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 10XY.

The Basis for Conclusions will be included with the final Standard.