

10 October 2018

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

Dear Kris

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

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

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

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

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

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

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

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

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

ACAG have also encountered the following implementation issue:

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

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

Yours sincerely



Andrew Greaves
Chairman
ACAG Financial Reporting and Accounting Committee