

14 August 2019

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

Dear Kris

**Fatal Flaw Review—AASB 2019-X: *Amendments to Australian Accounting Standards – Implementation of AASB 1059***

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to provide comments on the fatal flaw review of AASB 2019-X *Amendments to Australian Accounting Standards – Implementation of AASB 1059* (the Standard). The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the amendment to AASB 16 to provide a practical expedient to grantors of service concession arrangements so that AASB 16 does not need to be applied to assets that would be recognised as service concession assets under AASB 1059.

We are pleased that the AASB is considering amendments to the transitional provisions of AASB 1059. However, we do not believe that the proposals will address service concession arrangements where existing assets have been contributed by the grantor.

For these situations, the amount of the proceeds received is not linked to the current replacement cost (CRC) of the asset. The asset already exists, and the proceeds are linked to the operator's earning potential of the asset. For example, for toll roads, the proceeds are linked to the amount of the tolls and the length of the service concession offered.

Therefore, the transition calculation of the GORTO liability, linked to the CRC of the asset (whether apportioned to the length of the service concession arrangement or the length of the remaining economic life of the asset), results in an anomalous outcome.

An alternative interpretation of paragraph C4(c) is that because no service concession asset was initially received where a service concession arrangement is over existing assets, then no liability for unearned revenue is recognised. This approach also does not seem appropriate.

ACAG has not been able to identify any easy solutions, however we present the following suggestion, which draws upon the principles in paragraphs 11-12 when accounting for new service concession arrangements, for the AASB's consideration as a possible solution to address the anomalies highlighted above.

ACAG suggest that the GORTO liability at the date of initial application be calculated based on the following calculation for the total service concession liability:

The CRC at the date of initial application of the service concession asset received (if any), plus or minus the value of any other consideration received from the operator or given by the grantor. x  $\frac{\text{Remaining service concession period}}{\text{Total period of the arrangement}}$

The GORTO liability will then be the above total service concession liability amount less any related financial liability.


It may not be possible to identify from the CRC of a self-constructed asset at the date of initial application the portion of the asset that relates to the self-constructed portion (original grant of concession) and the service concession asset received (i.e. the subsequent capital replacements), without applying some sort of retrospective assessment.

To address this issue another possible solution is to permit entities to retrospectively apply the standard on a service concession-by-service concession basis.

We would be happy to discuss possible suggestions to avoid anomalous accounting outcomes.

ACAG appreciates the opportunity to comment and trusts the above comments are useful.

Yours sincerely



Rod Whitehead  
**Chairman**  
**ACAG Financial Reporting and Accounting Committee**