Virtual roundtables to discuss:

- ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities*;
- ITC 51 *Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements*; and
- ITC 49 *Post-implementation Review of AASB 1059* Service Concession Arrangements: Grantors.

	Roundtable 2	Roundtable 3
Date	Tuesday 7 February 2023	Wednesday 8 February 2023
Part A – ITC 50 and ITC 51	12:30pm – 2:40pm AEDT	12:30pm – 2:40pm AEDT
Part B – ITC 49	2:55pm – 4:30pm AEDT	2:55pm – 4:30pm AEDT
Participants may attend Part A and/or Part B		
Target participants, including financial statements preparers, auditors and advisors	Local government stakeholders	State, Territory and Federal government stakeholders
Click to register	Zoom details for Roundtable 2	Zoom details for Roundtable 3

ITC 49 is open for comment until Tuesday, **28 February 2023**.

ITC 50 and ITC 51 are open for comment until Friday, **31 March 2023**. AASB staff have prepared a snapshot that provides an overview of the topics on which the AASB is seeking feedback.

Each roundtable is an opportunity for stakeholders to provide feedback on the topics covered in each ITC, and **participants may attend Part A and/or Part B**.

If you are unable to attend a roundtable session, feedback can also be provided in the following ways:

- online surveys are available for ITC 50 and ITC 51;
- email: standard@aasb.gov.au;
- formal written submission by lodging online via our 'Open for comment' page at: www.aasb.gov.au/current-projects/open-for-comment/

For more details, please click here.

An outline of the two virtual roundtables is as follows:

	Time (pm) AEDT
Welcome and introduction	**12:30 – 12:35**
Part A – ITC 50 and ITC 51	**12:35 – 2:40**
Income	12:35 – 1:35
Related party disclosures by NFP public sector entities	1:35 – 2:05
The definition of a structured entity	2:05 – 2:15

Control/consolidation	2:15 – 2:35
The use of special purpose financial statements in the public sector	2:35 – 2:40
Break	**2:40 – 2:55**
Part B – ITC 49	**2:55 – 4:25**
Public service	2:55 – 3:15
Grantor's control of the service concession asset	3:15 – 3:30
Recognition and measurement of service concession assets and related liabilities	3:30 – 4:10
Public sector operator and other matters	4:10 – 4:25
Closing remarks	4:25 – 4:30

A detailed agenda is included in Appendix A and summarises the key matters to be discussed for each topic. Appendix A also includes useful information to assist you with preparing for the sessions. There will be an open discussion of each topic, and attendees will have the opportunity to provide their feedback.

Appendix A

PART A – ITC 50 and ITC 51 12:35 – 2:40

What we want to know:
In considering the topics below, we are particularly interested in the following:

- whether you have experienced application issues;
- your views on the current requirements;
- whether differences in application exist in practice;
- information about relevant circumstances and their significance; and
- whether, in addition to the existing guidance in Australian Accounting Standards, there is any other guidance that you think would be useful, including the reasons why.

Examples to support your discussion are also helpful.

1	Income of Not-for-Profit Entities	12.35 – 1.35

Statutory receivables

A statutory receivable is one which arises from statutory requirements rather than through a contract, for example rates, taxes and fines. As the nature of statutory receivables is similar in nature to a contractual receivable, statutory receivables are recognised and measured as if they are financial assets when statutory requirements establish a right for the entity to receive cash or another financial asset.

The AASB has received feedback that suggests:

- the requirements to recognise and measure a statutory receivable as if it were a financial asset only applies to initial measurement and not subsequent measurement, causing inappropriate inconsistency across entities in the subsequent measurement of such assets; and
- the initial measurement of the statutory receivable at fair value has also added considerably to the workload of preparers and auditors.

Differences between management accounts and statutory accounts and alternative revenue recognition models

In some cases, entities are required by the accounting standards to recognise income on receipt, whilst expenses are recognised when incurred, which could be in a subsequent reporting period or periods.

The AASB has received feedback that recognising income on receipt can be unhelpful for users of financial statements because activities still need to be performed.

Many stakeholders noted that internal finance reports are being prepared based on the activities of the project, rather than the accounting standards, because they are more useful.

Note: Question 10 of ITC 50 includes examples of possible alternative revenue recognition approaches.

Principal v agent, including the appropriate recognition of financial liabilities

Whether an entity is a principal or an agent affects the accounting for any funds received:

- a principal (i.e. an entity that provides goods or services) recognises the gross amount paid by the customer as revenue and payments made to provide the goods or services as recorded as expenses as incurred; however
- an agent (i.e. an entity whose role is to arrange for another party to provide the goods or services) recognises a financial liability for funds received that will be passed on to the recipient and only recognises revenue for the amount they will retain (e.g. for administrative expenses).

The AASB has received feedback that indicates further clarification is needed regarding the accounting treatment of financial instruments under AASB 1058, particularly whether to recognise a financial liability (and the amount) when an entity's only obligation is to transfer funds received to other entities.

Stakeholders have expressed concerns that the existing illustrative examples in AASB 1058 may lead to diversity in recognising financial liabilities.

Grants received in arrears

AASB 1058 requires an entity to consider whether an asset should be recognised and how it is measured. This is dependent on its nature and may include:

- a financial asset, when the entity has a contractual right to receive cash or another financial asset from the grantor; or
- another type of asset in accordance with another standard (AASB 16 *Leases*, AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*) when it is not a financial asset.

The AASB has received feedback indicating there are divergent views on how to account for grants received in arrears, particularly where some of the work funded by the grant is performed before the funding is received.

For example, in December 20X1 an entity is awarded funding in relation to community engagement sessions under an enforceable agreement. The agreement is not considered sufficiently specific however the entity is entitled to $100 for each session held up to $100,000. The entity claims payment every six months and from January to June 20X2, the entity has held five hundred sessions. The different approaches applying in practice are:

1. not recognise an asset (or revenue) until funds are received;
2. recognise a receivable (and revenue) when the sessions are held; or
3. recognise a contract asset (and revenue) when the sessions are held.

Termination for convenience clauses

A TFC clause allows one or both parties to terminate the agreement without showing cause and are commonly used in government grants.

The AASB has received feedback that indicates diversity in practice with two views relating to the recognition of liabilities for unspent funds where a TFC clause is present:

- View (a) – recognise a liability for unspent funds when the grant is provided, and income is recognised as the funds are spent; or
- View (b) – a liability is only recognised when the TFC clause has been exercised and there has been a request for repayment. Income is recognised on receipt of the grant.

The AASB would like to understand whether you support view (a) or (b), including your rationale with reference to Australian Accounting Standards and examples to illustrate.

Accounting for research grants

Accounting for research grants depends on the specific terms and conditions of the grant. Revenue is recognised over time when the customer simultaneously receives and consumes the benefit provided by the entity's performance.

In 2019, the AASB issued additional guidance on the accounting for research grants by adding illustrative examples 4A and 4B in AASB 15 and issuing AASB Staff FAQs to clarify the application of recognising revenue over time.

The AASB has received feedback that notwithstanding the additional guidance, there continue to be differences in application regarding the revenue recognition of research grants.

Sufficiently specific criterion and the legal interpretation of agreements

A contract needs to have sufficiently specific performance obligations to be within the scope of AASB 15. This requires judgement and consideration of any explicit or implicit conditions in the agreement.

The AASB has received feedback that there are concerns that the comparability of NFP entity financial statements may be reduced since the term sufficiently specific:

- is unclear and there is confusion in practice, causing different accounting treatment for agreements with similar terms and conditions; and
- seems to have a higher threshold than a legal interpretation of breach of contract.

Capital grants

Where an NFP entity receives funding, under an enforceable agreement, to enable it to acquire or construct a recognisable non-financial asset to identified specifications that it will control, AASB 1058 requires the entity to recognise a liability and income as it satisfies its obligations under the agreement. Such transfers are often referred to as "capital grants".

The AASB has received feedback that because there is no guidance to explain how specific the identified specifications need to be, this is causing divergent views about how much detail is required and therefore inconsistent accounting treatment for similar contracts.

2	Related party disclosures by NFP public sector entities	1:35 – 2:05

AASB 124 requires NFP public sector entities to disclose related party relationships, transactions and outstanding commitments in their financial statements.

The AASB has received feedback relating to:

(a) a public sector entity's ability to obtain the information necessary to prepare the required disclosures, including:

   (i) challenges identifying a complete set of related parties;

   (ii) difficulties in ensuring the completeness of representations made by related parties completing documentation about their engagements with the entity and requiring the completion and return of such forms; and

(iii) the extent of information related parties were required to provide was partly because of the close family member provisions of the Standard.

(b) data privacy;

(c) the auditability of disclosures; the appropriateness and value of the requirements in relation to the apparent capture of a wide net of people and entities; and

(d) how the concept of materiality applies to transactions with related party key management personnel. Although the AASB did not see a need to amend AASB 124 in respect of this issue, when the AASB issued Practice Statement 2 *Making Materiality Judgements* in 2017, it added Appendix A *Materiality of key management personnel related party transactions of not-for-profit public sector entities*.

3	The definition of a structured entity for NFP entities	2:05 – 2:15

The AASB added Appendix E to AASB 12 in 2013 which explains the application of the definition of 'structured entity' by NFP entities to clarify that the definition is intended to capture entities where less conventional means – in the context of NFP entities (e.g. administrative arrangements and statutory provisions) – are the dominant factors in determining who controls the entity.

The AASB is not aware of any implementation issues arising from the application of AASB 12 Appendix E.

4	Control and consolidation of NFP entities	2:15 – 2:35

Application of the control model in the NFP sector

The AASB added Appendix E to AASB 10 in 2013 to provide guidance on how the control definition in AASB 10 applies to NFP entities, including criteria for determining whether one entity controls another entity.

The AASB has received feedback that indicates concerns about applying the control model in the NFP sector, in particular:

- NFP entities being required to consolidate other entities they do not believe they have genuine control over – particularly where there are no shared financial liabilities or other financial impacts of the relationship;
- that consolidated financial statements may not be appropriate since the parent's financial position and performance may be obscured by the subsidiary, although the parent might not be able to access the net assets or funds of the subsidiary; and
- consolidation may be difficult due to practices in the sector, for example, secrecy and lack of documentation, which makes it difficult for the entity to obtain the required information from the controlled entity.

Identifying variable returns in the NFP sector

AASB 10 Appendix E includes guidance relating to the broad nature of variable returns, specifically that returns may be financial, non-financial, direct and indirect benefits and returns may also be positive or negative.

The AASB has received feedback that indicates there are challenges identifying variable returns since the implementation guidance in Appendix E is broad and most returns in the NFP sector are non-financial.

Customary business practices in the NFP sector

The AASB has received feedback suggesting it is unclear what effect customary business practices have on assessing control in the NFP sector.

For example, if an Association has established a customary business practice by only distributing returns to a particular entity, does this expose the entity to variable returns regardless of the fact that the rules of the Association permit returns to be distributed to any entity the Association considers worthy?

Assessing control without an equity interest

An ownership interest is not required when determining whether one entity controls another. Instead, an entity considers, among other things, whether it has rights that give rise to power. The AASB has received feedback indicating that assessing whether an NFP entity has rights that give rise to power can be challenging due to the legal structure of some entities.

This includes whether the ability to direct distributions on winding up an entity is a protective or substantive right.

In practice, the AASB understands that when surplus assets are distributed back to the investor, investors often conclude they have control. Alternatively, when surplus assets are distributed to an unrelated entity, determining whether the investor has control is less clear, leading to diversity in practice.

Principal v agent – public sector entities

Stakeholders have sought clarification of when an NFP public sector entity might be acting as a principal or an agent. In the public sector, investments are often not financial, and returns are often in the form of policy outcomes rather than financial outcomes.

The AASB has received feedback suggesting there can be inconsistent conclusions in similar situations. Further, existing guidance in AASB 10 Appendix E is generally useful as it clarifies/confirms how to analogise the requirements for the public sector. However, in some cases, it is necessary to apply the for-profit guidance that applies to managed funds.

5	The use of special purpose financial statements (SPFS) in the public sector	2:35 – 2:40

Whilst not addressed in ITC 51, the AASB would also like to know the following:

(a) whether there are many public sector entities currently preparing SPFS;

(b) the types of public sector entities currently preparing SPFS;

(c) whether those SPFS are compliant with the recognition and measurement requirements of Australian Accounting Standards and which disclosures have been omitted from the SPFS; and

(d) the reasons why those entities have chosen to prepare SPFS rather than general purpose financial statements.

PART B – ITC 49

2:55 – 4:25

AASB 1059 *Service Concession Arrangements: Grantors*

What we want to know

In responding to the questions for respondents below, please provide:

a) your views on the accounting requirements, relevant circumstances and their significance; and
b) where relevant, explain the accounting adopted or proposed and the reasons for that accounting.

1	Public service	2:55 – 3:15

<u>AASB 1059 requirements</u>

AASB 1059 paragraph 2 states that for an arrangement to be within the scope of AASB 1059 and accounted for as a service concession arrangement, the arrangement must involve an operator:

(a) providing public services related to a service concession asset on behalf of a grantor; and
(b) managing at least some of those services under its own discretion, rather than at the direction of the grantor.

Some stakeholders have commented that determining an arrangement is within the scope of AASB 1059 involves significant judgment and can be challenging and seek more guidance, particularly in the areas of:

(a) determining which services are considered 'public services' in order to determine whether the arrangement is within the scope of AASB 1059;
(b) determining whether the operator is managing at least some of the services at its own discretion; and
(c) determining which secondary assets should be included in the recognition of a service concession asset.

<u>Questions for respondents</u>

ITC 49 Q1: Do you have comments regarding the application of the following requirements of AASB 1059:

(a) the use of the term 'public service';

(b) the operator's involvement in providing public services on behalf of the grantor;

(c) the operator managing at least some of the public services under its own discretion; and

(d) the approach to secondary assets?

ITC 49 Q2: Do you have comments regarding the characteristics of an arrangement that would distinguish it as a service concession arrangement from other arrangements such as a privatisation or outsourcing arrangement, or a lease?

2	Grantor's control of the service concession asset	3:15 – 3:30

<u>AASB 1059 requirements</u>

For a grantor to recognise an asset as a service concession asset, the grantor must control the asset. AASB 1059, paragraph 5, states that 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.

Some stakeholders have commented that too much judgement is involved in determining whether a grantor controls a service concession asset and seek more guidance to assist in identifying the level of control required to satisfy the conditions in paragraphs 5(a) and (b).

Questions for respondents

ITC 49 Q3: Do you have comments regarding the application of the following requirements in AASB 1059 paragraph 5:

(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 any significant residual interest in the asset at the end of the term of the arrangement?

ITC 49 Q4: An arrangement is within the scope of AASB 1059 for recognition as a service concession arrangement if all of the following conditions are satisfied:

(a) the operator provides public services related to a service concession asset on behalf of the grantor;

(b) the operator manages at least some of the public services under its own discretion;

(c) 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

(d) the grantor controls any significant residual interest in the asset at the end of the term of the arrangement. This includes the grantor having substantive rights to prevent the operator from selling or pledging the asset during the service concession arrangement.

Do you consider it appropriate for an arrangement to be accounted for under AASB 1059 only when all of the above conditions are satisfied? Please provide reasons to support your view.

ITC 49 Q5: In addition to the conditions in AASB 1059 paragraphs 2 and 5 (as set out in Question 4), are there other factors that you consider would assist in determining whether an arrangement is within the scope of AASB 1059?

3	Recognition and measurement of service concession assets and related liabilities	3:30 – 4:10

AASB 1059 requirements

AASB 1059 requires the grantor to initially recognise:

(a) a service concession asset at current replacement cost (CRC) in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement* (paragraph 7); and
(b) a liability measured at the same amount as the service concession asset, adjusted by the amount of any other consideration (e.g. the transfer of an existing asset) between the grantor and the operator (paragraphs 11 and 12). Where the grantor compensates the operator by:
    (i) making payments to the operator – the liability is accounted for using the financial liability model;

(ii) other means, such as granting the operator the right to earn revenue from third-party users of the service concession asset or access to another revenue-generating asset for the operator's use – the liability is accounted for using the grant of a right to the operator (GORTO) model (paragraph14); or
(iii) partly by incurring a financial liability and partly by the grant of a right to the operator – each part of the total liability in such a hybrid arrangement is accounted for separately (paragraph 24). In a hybrid arrangement:
- the financial liability part is measured first, using the contractually specified interest rate (if practicable) or else another appropriate rate (paragraphs 25 and B64). AASB 9 *Financial Instruments* then applies to the recognised financial liability (paragraph 17); and
- the remainder of the total liability is allocated to the GORTO part (paragraph 25).

AASB 1059 requires the grantor to subsequently:

(a) measure a service concession asset in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Asset*, as appropriate, using the cost approach to fair value in AASB 13 (paragraphs B58 and B59);
(b) measure any financial liability in accordance with AASB 9; and
(c) recognise revenue and reduce the GORTO liability based on the economic substance of the arrangement (paragraph 22).

In respect of the recognition and measurement of service concession assets, some stakeholders have commented that:

(a) other valuation techniques in AASB 13, other than the cost approach, should be permitted to be applied in measuring a service concession asset;
(b) it is unclear how service concession assets under construction should be measured;
(c) it is unclear whether, after initially recognising a service concession asset, how improvements to that asset should be recognised and measured; and

(d) AASB 1059 does not specify how contract modifications should be accounted for, such as when the operator provides an additional asset or service or carries out a major upgrade or replacement that was not part of the original arrangement.

In respect of the recognition and measurement of liabilities in service concession arrangements, some stakeholders have commented that:

(a) there are challenges in measuring financial liabilities in service concession arrangements involving variable or contingent consideration or minimum guarantee payments, where the grantor pays any shortfall between the amounts received by the operator from users of the asset and the contracted minimum consideration for the operator;

(b) it is unclear how to identify "the economic substance of the arrangement" for the purpose of amortising GORTO liability; and

(c) they have experienced anomalous outcomes when applying the requirements in paragraphs 11 and 12 of AASB 1059 in initially measuring a partly completed service concession asset.

<u>Questions to respondents</u>

Recognition and measurement of service concession assets

ITC 49 Q7: Do you have any comments regarding:

(a) initially measuring a service concession asset at its CRC using the cost approach in AASB 13;

and

(b) subsequently measuring the service concession asset at CRC under the revaluation model in AASB 116 or AASB 138 (if the revaluation model is adopted by the entity)?

ITC 49 Q8: Do you have any comments regarding the recognition and measurement of a service concession asset under construction?

ITC 49 Q10: Do you have any comments regarding the recognition and measurement of upgrades or replacement of major components of a service concession asset?

ITC 49 Q11: Do you have any comments regarding how contract modifications should be accounted for under AASB 1059?

Recognition and measurement of liabilities in service concession arrangements

ITC 49 Q13: Do you have comments regarding the application of the requirements in paragraphs 11 and 12 of AASB 1059 to initially measure the liability at the same amount as the service concession asset, subject to certain adjustments?

ITC 49 Q14: In addition, do you have comments regarding the application of AASB 1059 requirements to initially recognise a partly completed service concession asset (or asset under construction) and associated liabilities?

ITC 49 Q15: Do you have comments regarding the subsequent measurement requirements for financial liabilities?

ITC 49 Q16: Do you have comments regarding the initial and subsequent measurement, including amortisation, of GORTO liabilities?

4	Public sector operator and other matters	4:10 – 4:25

Public sector operator

Some stakeholders have commented there are many “public-to-public” service concession arrangements, which involve an operator that is a public sector entity. These arrangements are within the scope of AASB 1059 since the Standard does not exclude arrangements where the operator is a public sector entity. Many such public-to-public arrangements are within the same department or jurisdiction.

Some stakeholders have suggested that the benefits of requiring intra-group transactions to be accounted for under AASB 1059 would not outweigh the costs of that accounting when it is to be reversed on consolidation for the controlling entity or the whole of government financial statements.

Other matters

- Disclosure requirements in AASB 1059
- Implementation Guidance and Illustrative Examples in AASB 1059

Questions for respondents

ITC 49 Q6: Do you have comments regarding a public sector entity applying AASB 1059 as the grantor when the operator is another public sector entity? If you propose excluding public-to-public arrangements from the scope of AASB 1059, what is the rationale for your view?

ITC 49 Q18: Do you have any comments regarding the disclosure requirements in AASB 1059 (paragraphs 28 and 29), which cover both qualitative and quantitative information about a grantor's service concession arrangements?

ITC 49 Q19: Do you have any comments regarding the Implementation Guidance and Illustrative Examples that accompany AASB 1059?