Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Post-implementation Review of AASB 1059 *Service Concession Arrangements: Grantors*	**Meeting:**	AASB November 2025 (M216)
Topic:	Assessment of feedback and evidence obtained	**Agenda Item:**	5.1
		Date:	30 October 2025
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		Decision-Making:	Medium
		Project Status:	Consider stakeholder feedback and decide on the next steps

Objective and structure of this paper

1 The objectives of this paper are for the Board to:

(a) **note** background information about the development of AASB 1059 *Service Concession Arrangements: Grantors* (Section 1, Appendix A and Appendix B)*;*

(b) **be informed** about the work undertaken regarding the Post-implementation Review (PIR) of AASB 1059 (Section 2);

(c) **consider** an overview of stakeholder feedback regarding their challenges in applying AASB 1059 and staff analysis (Section 3);

(d) **consider** staff's views on the assessment of Step 4 of the Board's process for undertaking PIR (Section 4); and

(e) **decide** whether sufficient feedback and evidence have been obtained to determine whether any action is required; and if so, **decide** on the appropriate next steps (Questions for Board members).

Section 1: Background on AASB 1059

What is a Service Concession arrangement, and why is AASB 1059 needed?

2 Public sector entities (grantors) sometimes engage other parties (operators) to develop infrastructure or other assets and to support the delivery of public services. Under these arrangements, the operator constructs or otherwise provides the underlying infrastructure through which public services are delivered on behalf of the grantor. In return, the grantor makes payments to the operator and/or grants the operator a right to charge users for the services—for example, collecting tolls from drivers using a road.

3 AASB Interpretation 12 *Service Concession Arrangements*, which incorporates IFRIC 12 *Service Concession Arrangements*, originally issued in 2009, prescribes the accounting by operators for public-to-private service concession (SC) arrangements. Interpretation 12 states that the operator acts as a service provider for the grantor and therefore does not control the asset it provides to the grantor. Therefore, the operator does not recognise an SC asset in its balance sheet.

4 Prior to issuing AASB 1059 in 2017, there was no specific Australian Accounting Standard that prescribed the accounting for such arrangements from the grantor's perspective. Accounting practices varied significantly, with some grantors recognising the assets provided by the operator, and related liabilities, in their balance sheet, while others did not. Accordingly, in some cases the assets were not recognised by any entity since operators do not recognise the assets in accordance with Interpretation 12.

5 Given the significance of this type of arrangement to the Australian economy, and that recognition of assets and related liabilities is important in assisting users of financial statements to understand the resources and obligations of a grantor involved in the provision of public services, the Board decided to issue AASB 1059 to address the divergence (AASB 1059, paragraph BC5). An extensive Basis for Conclusions accompanies AASB 1059.

6 AASB 1059 requires the grantor of an SC arrangement to initially recognise:

(a) SC assets provided by the operator, and measure them using the cost approach in AASB 13 *Fair Value Measurement* (i.e. measure SC assets at their current replacement cost (CRC)); and

(b) an equivalent liability.

7 Appendix A to this paper provides a high-level overview of the main aspects of a typical SC arrangement and the main requirements in AASB 1059 and Interpretation 12, for the Board's information.

Development of AASB 1059

8 AASB 1059 was issued in July 2017 and applied to annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

9 AASB 1059 was developed using IPSAS 32 *Service Concession Arrangements: Grantor* as its foundation. However, the Board made changes to the scope, recognition, and measurement requirements of IPSAS 32, and added mandatory application guidance along with Illustrative Examples. As a result, AASB 1059 is not closely aligned with any international standard.

10 Appendix B to this paper provides an overview of the development of AASB 1059, including subsequent amendments, covering the period from 2008 to 2021.

PIR of AASB 1059

11 The Board had received submissions on ITC 46 *AASB Agenda Consultation 2022–2026* (February 2022) from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) and the Australasian Council of Auditors-General (ACAG) placing a high priority on the Board conducting a PIR of AASB 1059 to assist entities in addressing issues that have emerged on applying the Standard.

12 At its May 2022 meeting, the Board decided to undertake a PIR of AASB 1059.

Section 2: Work undertaken regarding the PIR of AASB 1059

13 The following table provides an overview of the work undertaken regarding the PIR of AASB 1059.[1]

September 2022	The Board issued ITC 49 *Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors* with a 150-day comment period ending on 28 February 2023. The Board received six comment letters (paragraph 14 below provides an overview of the comments received on ITC 49).
June 2023 Board meeting (M196)	The Board commenced its review of respondents' comments on ITC 49. At the time, staff recommended undertaking standard-setting work in addressing stakeholder concerns due to the large number of issues raised by stakeholders on most aspects of AASB 1059. The Board observed that the majority of feedback received on ITC 49 involved issues it had previously considered when developing AASB 1059. The Board decided that, before it makes a decision on whether standard-setting action is needed, further consultation with key ITC respondents is necessary. At the June 2023 meeting, the Board reprioritised its workplan to focus on the development of climate-related disclosure Standard. This included pausing the work on the PIR of AASB 1059 in July 2023.
10 July 2023	Staff sent follow-up questions to HoTARAC, the Financial Reporting and Accounting Committee (FRAC) of ACAG, and Scyne Advisory to obtain further information in relation to matters described in paragraph 18 below. The staff memos used for the additional targeted outreach are presented as Agenda Paper 5.3.
July 2023 - January 2025	Project on pause
February 2025 - present	Staff resumed work on analysing ITC 49 feedback and feedback received from the additional outreach.

Section 3: Overview of stakeholder feedback and staff analysis

Responses received on ITC 49

14 The Board received six submission letters on ITC 49:[2]

(a) S1–Gold Coast Hospital and Health Services (GCHHS) described the challenges it encountered with determining whether a user-pays hospital car park is considered to be providing a 'public service' and therefore should be within the scope of AASB 1059;

1 The project summary relating to the PIR of AASB 1059 can be accessed here.

2 The comment letters were presented as Agenda Paper 5.4 *ITC 49 submission letters* for the June 2023 (M169) meeting.

(b) S2–ACAG responded to all questions in ITC 49, including the General Matters for Comment. ACAG raised concerns about a wide range of aspects of AASB 1059;

(c) S3–PwC provided comments relating to the scope and control criteria of AASB 1059 and measurement of SC assets and subsequent measurement of the 'grant of a right to the operator' (GORTO) liability;

(d) S4–SW Accountants & Advisors requests the Board to clarify the accounting treatment of guarantee payments from the grantor to the operator to cover a shortfall in revenue;

(e) S5–HoTARAC responded to all questions in ITC 49, including the General Matters for Comment. HoTARAC raised concerns about a wide range of aspects of AASB 1059; and

(f) S6–Deloitte did not specifically respond to the questions in ITC 49. They commented that applying the Standard required significant judgement and suggested the Board provide further guidance to assist the application of the Standard based on State government guidance.

15 Staff held two virtual roundtable discussions in February 2023 to obtain stakeholders' views on AASB 1059, as well as discussions with individual stakeholders.

Overview of ITC 49 responses

16 Across all respondents, significant issues were raised about applying most scope, asset control and measurement aspects of AASB 1059, including:

(a) determining which arrangements or assets should be within the scope of AASB 1059;

(b) the mandatory use of the cost approach in AASB 13 to measure SC assets; and

(c) recognition and measurement of liabilities associated with SC arrangements.

17 Refer to Agenda Paper 5.2 for more detail on these significant issues.

Additional targeted outreach

18 At its June 2023 meeting, after considering a high-level overview of the ITC 49 feedback, the Board was of the view that further information is needed before deciding on the appropriate standard-setting response. The Board instructed staff to undertake further consultation with key ITC 49 respondents to:

(a) clarify whether their concerns with the scope, asset control and measurement requirements are related to:

(i) disagreement with the principles underlying AASB 1059;

(ii) challenges experienced in applying those underlying principles; or

(iii) disagreement with the result of applying AASB 1059 to certain types of transactions; and

(b) obtain further input on specific topics where additional guidance and clarification are sought.

19 Accordingly, staff circulated follow-up questions to key ITC respondents, as set out in Agenda Paper 5.3. HoTARAC provided a written response in April 2025 (see Agenda Paper 5.4). Staff held interviews with representatives of two Audit Offices and Scyne Advisory.

Overview of feedback received in the additional targeted outreach

20 Regarding the specific matters the Board wanted clarification on (as mentioned in paragraph 18), based on the feedback obtained in the additional targeted outreach, it appears that stakeholders' concerns primarily relate to, but are not limited to, the following areas:

(a) significant challenges in applying the underlying principles relating to the scope and asset control criteria – clarifications are sought on all the criteria set out in AASB 1059.2 and 5;

(b) disagreement with scoping into AASB 1059 arrangements where the operator does not provide the SC asset (i.e. the operator is engaged to operate and maintain grantors' existing assets);

(c) disagreement with the result of measuring certain assets using the cost approach in AASB 13;

(d) disagreement with the result of recognising previously unrecognised intangible assets at fair value, when there is no active market for the asset; and

(e) matters not specially addressed by AASB 1059, including:

  (i) accounting treatment for additions made to the SC asset by the operator during the service period;

  (ii) contract modifications; and

  (iii) how variable consideration should be treated.

Staff analysis of the main concerns

21 Agenda Paper 5.2 provides an explanation of the main concerns raised by stakeholders, which have been summarised as six issues. Staff consider those concerns to be valid and substantive.

22 Staff consider that sufficient feedback and evidence have been obtained to conclude the PIR. The extent of stakeholders' concerns indicates that further standard-setting work is justified under the Board's process for undertaking PIR (see Section 4) and the *AASB Not-for-Profit Entity Standard-Setting Framework.*

Section 4: The Board's process for undertaking PIR, and staff assessment

23 The following table sets out the example factors the Board would consider before deciding whether any action is required following a PIR, as noted in Step 4 of the PIR process, as well as staff's view on the assessment regarding the PIR of AASB 1059.

Factors	Staff's comments
The problem has, or is expected to have, a material effect on those affected	SC arrangements are material to the affected public sector entities and to the Australian economy
The prevalence of the problem and its magnitude in the Australian economy	All stakeholders who responded to the PIR expressed concerns about the costs and efforts required to determine whether an arrangement is within the scope of AASB 1059. Most assets subject to the recognition and measurement requirements of AASB 1059 are of significant value to the grantor and to the Australian economy
Whether the problem can be resolved within the confines of the Standards in a reasonable timeframe	Since AASB 1059 is a domestic Standard not closely aligned with an international standard, the issues raised by stakeholders could be resolved by undertaking domestic standard-setting work
The urgency of the problem to be resolved	In 2022, HoTARAC and ACAG have requested the Board to consider addressing AASB 1059 implementation issues as a

	high-priority project The work on the PIR of AASB 1059 was paused in July 2023 to focus resources on the development of the climate-related disclosure Standard, rather than because of any lack of interest in taking action
The interaction of the problem with other current or future projects	There is no significant interaction between AASB 1059 and other current projects. However: (a) the Board's recent decision in AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* (paragraph BC 29) – to not mandate a specific approach for measuring the fair value of assets – should be considered in any standard-setting work relating to AASB 1059; and (b) stakeholder feedback on recognising data as an SC asset under AASB 1059 – when such recognition is prohibited under AASB 138 *Intangible Assets* – may inform any future work on assessing whether data should be recognised as an asset.
The overall costs and benefits of resolving the problem	Any modifications made to AASB 1059 would be aimed at reducing implementation costs and efforts and/or enhancing the usefulness of the reported information

24 **Staff recommendation:** Staff recommend undertaking standard-setting work as a high-priority project to consider developing amendments to AASB 1059 to address stakeholder concerns.

Questions for Board members

Q1: Do Board members agree that sufficient feedback and evidence have been obtained to conclude the PIR of AASB 1059 (and progress to publishing a Feedback Statement, which is Step 5 of the PIR process)? If not, what additional work do members consider necessary before concluding the PIR?

Q2: Do Board members agree with the staff recommendation to undertake standard-setting work as a high-priority project to consider developing amendments to AASB 1059?

The Board is not asked to make decisions on the specific matters discussed in Agenda Paper 5.2, but Board members are welcome to provide any comments to staff.

Appendix A: High-level overview of the main aspects of a typical SC arrangement

A1 Interpretation 12.12 states that "Under the terms of contractual arrangements within the scope of this Interpretation, the operator acts as a service provider. The operator **constructs or upgrades infrastructure (construction or upgrade services)** used to provide a public service and **operates and maintains that infrastructure (operation services)** for a specified period of time." [emphasis added]

A2 The terms "construction or upgrade services" and "operation services" are not used in AASB 1059. However, staff consider that those terms are useful in explaining the main aspects of a typical SC arrangement.

A3 In a typical SC arrangement, a public sector entity (the grantor) enters into a contract with the operator to provide both construction or upgrade services and operation services. Specifically:

(a) construction or upgrade services – the operator constructs or purchases new assets, or provides significant upgrades to the grantor's existing assets (i.e. the operator is responsible for the design and construction of the SC asset). Typically, the contract would specify that the operator takes on the design and construction risks of the SC asset, and the construction of the asset is deemed to be complete and ready for operation only when the grantor is satisfied with the asset; and

(b) operation services – upon construction completion, the operator operates or uses the SC asset to provide services on behalf of the grantor, and maintains the SC asset, for a specified period of time (i.e. the service period).

A4 The grantor would compensate the operator by either, or a combination of, the following:

(c) monetary payments, including variable payments; and

(d) a "grant of a right to the operator" (GORTO) to earn revenue from third-party users of the SC asset for a specified period of time.

A5 AASB 1059 was developed with the objective of mirroring the grantor's accounting treatment to the operator's treatment prescribed in Interpretation 12. The diagram below summarises the respective accounting requirements for the grantor and the operator under AASB 1059 and Interpretation 12 in a typical service concession (SC) arrangement.

Grantor (AASB 1059)	Construction or upgrade services	Operator (Interpretation 12)
Recognise **SC asset and an equivalent liability** measured at the CRC of the SC asset	During construction phase	Initially recognise **contract asset** in accordance with AASB 15 *Revenue from Contracts with Customers*
Recognise liability as either one, or a combination of, the following:		Subsequently classify contract asset as either one, or a combination of, the following:
Financial liability under AASB 9 *Financial Instruments*	Compensation from grantor to operator – monetary amounts	**Financial asset** under AASB 9
GORTO liability representing the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator**	Compensation from grantor to operator – by granting a right to the operator (GORTO) to earn revenue from third-party users of the SC asset	**Intangible asset** under AASB 138 *Intangible Assets*
Account for other liabilities, commitments, contingent liabilities and contingent assets arising in accordance with AASB 9, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, and any other relevant Standards	**Operation services**	Account for operation services in accordance with AASB 15

** GORTO liability is initially measured at the CRC of the SC asset less any financial liability related to the asset, and subsequently amortised throughout the service period according to the economic substance of the SC arrangement.

Appendix B: The Board's journey in developing AASB 1059

The following table provides an overview of the Board's journey in developing AASB 1059, including subsequent amendments.[3]

March 2008	IPSASB published Consultation Paper *Accounting and Financial Reporting or Service Concession Arrangements.* The AASB submission letter to the IPSASB can be accessed here.
February 2010	IPSASB published ED 43 *Service Concession Arrangements: Grantor.* The AASB submission letter to the IPSASB can be accessed here.
October 2011	IPSASB issued IPSAS 32, and the Board began adapting IPSAS 32 for Australia.
May 2015	Published ED 261 *Service Concession Arrangements: Grantor.*
February 2017	Published the Fatal-Flaw Review Draft version of the Standard.
July 2017	Issued AASB 1059, with an effective date of 1 January 2019.
Sep 2018	Issued AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* to defer the effective date of AASB 1059 to 1 January 2020.
Sep 2019	Issued AASB 2019-2 *Amendment to Australian Accounting Standards – Implementation of AASB 1059* to amend the application of the modified retrospective method in relation to recognition and measurement of financial and GORTO liabilities, and to provide practical expedients so that AASB 16 *Leases* would not need to be applied to assets that would be recognised as SC assets under AASB 1059.
June 2021	Issued AASB 2021-4 *Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors* to make further amendments to the modified retrospective method for measuring the GORTO liability so that it would be initially measured based on the fair value of the SC asset at the date of initial application.

3 The project summary relating to the development of AASB 1059 and related amendments can be accessed here.