



Project:	Post-implementation Review of AASB 1059 <i>Service Concession Arrangements: Grantors</i>	Meeting:	AASB November 2025 (M216)
Topic:	Summary of main issues and staff preliminary views	Agenda Item:	5.2
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Contact(s):	Claire Thomson cthompson@asb.gov.au Patricia Au pau@asb.gov.au Angus Thomson athomson@asb.gov.au	Project Priority:	Medium
		Decision-Making:	Medium
		Project Status:	Initial consideration of stakeholder feedback

Objective of this paper

- 1 To assist the Board in deciding on the questions in Agenda Paper 5.1, the objectives of this paper are for the Board to **consider**:
 - (a) a summary of the main issues raised by stakeholders in the Post-implementation Review (PIR) of AASB 1059 *Service Concession Arrangements: Grantors*; and
 - (b) the staff's preliminary views, including the nature of standard-setting work that might be needed to address each issue.

Structure of this paper

- 2 Staff have summarised the main concerns raised by stakeholders regarding the application of AASB 1059 into six issues:
 - (a) [Issue 1](#): Significant judgement is needed in determining whether an asset is within the scope of AASB 1059 – further clarifications and guidance are sought on how each aspect of AASB 1059.2 and AASB 1059.5 is to be applied;
 - (b) [Issue 2](#): Concerns with the mandatory use of the cost approach to measure the service concession (SC) asset's fair value;
 - (c) [Issue 3](#): Concerns with recognising previously unrecognised intangible assets as SC assets and measuring them at fair value;
 - (d) [Issue 4](#): Costs exceed benefits of scoping into AASB 1059 arrangements where the operator does not provide construction or upgrade services;
 - (e) [Issue 5](#): Costs exceed benefits of scoping into AASB 1059 arrangements where the grantor and the operator are entities within the same government; and

- (f) [Issue 6](#): Clarify which entity is the grantor when multiple public sector entities are involved in an SC arrangement.
- 3 These issues are discussed in turn. Each of the six issues is presented using the following structure:
- (a) preamble to the issue;
 - (b) explanation of the issue, which includes relevant AASB 1059 text in boxed text, with key words or phrases highlighted in blue shading (if relevant);
 - (c) suggestions from stakeholders (if relevant); and
 - (d) staff analysis and preliminary views on the nature of potential standard-setting work.
- 4 The [Appendix](#) to the paper summarises topics where clarification or further guidance is sought by stakeholders. Staff have not yet analysed those matters in detail. However, staff consider that standard-setting work would be needed to address them.

Issue 1: Significant judgement is needed in determining whether an asset is within the scope of AASB 1059

- 5 An asset relating to an SC arrangement is within the scope of AASB 1059 only if all the four criteria set out in AASB 1059.2 and 5 are met.
- 6 Stakeholders commented that the criteria in AASB 1059.2 and 5 require significant judgement and are costly to apply, and similar arrangements are being accounted for differently. Their comments regarding each criterion are explained below.

Issue 1A: Public services

What is the issue?

- 7 HoTARAC and other stakeholders commented that they have encountered significant costs and efforts in determining whether “secondary assets”, and assets that provide both public services and commercial services, are considered to be providing public services for the purposes of AASB 1059.2(a); and therefore, should be within the scope of AASB 1059.

Explanation

AASB 1059 text	
2	This Standard shall be applied to service concession arrangements, which involve an operator:
	(a) providing public services related to a <i>service concession asset</i> on behalf of a grantor; and
...	
B7	If an arrangement provides public services principally through a primary asset, and a secondary asset is used or is mainly used to complement the primary asset, such as student accommodation for a public university, the secondary asset would be regarded as providing public services as well. As another example, a hospital car park constructed by an operator as part of the arrangement to construct a hospital that largely provides public services would be considered part of the hospital service concession arrangement. The car park may provide limited ancillary services without affecting the assessment that the car park is used to provide public services. However, if the car park was not constructed as part of the hospital service concession arrangement (eg subsequent to the construction of the hospital or with a different party) and is largely of a commercial nature (eg car parking is available to the general public, including hospital patrons), the car park would be regarded as an asset that does not provide public services, and therefore outside the scope of this Standard.

- 8 Stakeholders commented that it is unclear whether the operator is “providing public services related to a service concession asset on behalf of a grantor” for the purposes of AASB 1059.2(a) in the following circumstances:
- (a) an SC asset that delivers multiple services, but only one service is provided by the operator (e.g. a residential building, which is constructed and maintained by the operator, is used to provide social housing to residents who require medical attention. The medical services are not provided by the operator, instead they are provided by the grantor or by another entity engaged by the grantor); and
 - (b) when an asset, or a secondary asset, is seen to be providing both public and commercial services (e.g. stadiums, university student accommodations, hospital car parks, ports), it is unclear how to consider factors such as price control, public access, and duration of service provision, when assessing whether the arrangement “largely provides public services” or is “largely of commercial nature”.
- 9 HoTARAC also commented that it is unclear why the timing of the construction of a secondary asset relative to the primary asset (the hospital car park constructed at a different time from the hospital [AASB 1059.B7]) is a factor to consider when determining whether an arrangement is within the scope of AASB 1059.

Stakeholder suggestions

- 10 In AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*, the AASB added pre-requisites, indicators and other considerations that need to be assessed to judge whether arrangements fall within the scope of AASB 17 *Insurance Contracts* in a public sector context. Some ITC 49 respondents suggested introducing a ranking of the specific guidance noted in AASB 1059.B6–B9 to assist stakeholders in determining whether an asset is providing public services.
- 11 Some stakeholders suggested removing the secondary asset concept from AASB 1059. They argue that each asset should be assessed independently based on control and scope criteria, regardless of its relationship to a primary asset or timing of construction. Most of the assets to which the secondary asset concept applies have been determined to be providing public services in their own right.
- 12 In responding to the additional targeted outreach in 2025, some stakeholders, including HoTARAC, proposed removing the public service criterion from the assessment to reduce the workload for preparers and auditors. They recommended focusing on the control criteria in AASB 1059.5, which is consistent with the scope criteria in Interpretation 12.5. HoTARAC are of the view that if the grantor controls the SC asset (by meeting all the criteria in AASB 1059.5), it should be recognised on the balance sheet, regardless of the nature of services provided.
- 13 However, representatives of the two audit offices considered that caution is needed in removing the public service criterion, as this was a deciding criterion in identifying some arrangements currently scoped into AASB 1059.

Staff analysis

- 14 Stakeholder feedback indicated that the “secondary asset” concept or “whether an asset provides public services” might not be an appropriate criterion to apply in determining whether an arrangement should be within the scope of AASB 1059 – for the grantor to recognise SC assets and related liabilities.

- 15 Staff observed that the operator “providing public services related to the SC asset on behalf of the grantor” is a scope criterion in paragraph 5 of [IPSAS 32 Service Concession Arrangements: Grantor](#), but IPSAS 32 does not contain the secondary asset concept. Paragraph 3 of AASB [Interpretation 12 Service Concession Arrangements](#) describes ‘public service’ as a feature of an SC arrangement, but it is not a scope criterion for an arrangement to be within Interpretation 12.
- 16 **Potential standard-setting work:** Reconsider whether the “secondary asset” concept or “whether an asset provides public services” remains useful for the overall assessment of whether the grantor has control of an asset; and if so, consider how the underlying principles of this criterion could be clarified.

Issue 1B: Operator manages at least some of the public services at its own discretion, rather than at the discretion of the grantor

What is the issue?

- 17 Stakeholders commented that they have difficulties in determining whether the criterion in AASB 1059.2(b) is met when:
- (a) the operator is required to maintain the SC asset, but does not directly provide public services – whether maintenance activity is considered “significant to the public services” provided by the SC asset; and
 - (b) the operator is responsible for scheduling asset maintenance activities, or scheduling of staff roster, but the grantor’s approval is required before execution.

Explanation

AASB 1059 text	
2	This Standard shall be applied to service concession arrangements, which involve an <i>operator</i>: ... (b) managing at least some of those services under its own discretion, rather than at the direction of the grantor. ...
B10	For an arrangement to be within the scope of this Standard, the operator must be responsible for providing public services through the service concession asset and for managing at least some of the public services and related services, and not act merely as an agent on behalf of the grantor through an outsourcing arrangement. For example, an operator in an arrangement to construct and operate a hospital in accordance with the grantor’s directions would need to provide services more managerial in nature than cleaning, building maintenance and security services for the hospital after its construction in order for the arrangement to be considered a service concession arrangement. Cleaning, building maintenance and security services would generally be regarded as relatively insignificant to the public services provided by the hospital. Therefore, if the operator is responsible only for constructing the hospital and then providing all or any of those services, the operator is unlikely to be considered to be responsible for some of the management of the public services provided by the hospital. However, if after constructing the hospital the operator also provides scheduling of staff and resources (even if provided by the grantor), the operator is likely to be responsible for some of the management of the hospital public services, and not acting like an agent of the grantor. In contrast, if the maintenance contributes significantly to the public services provided by the asset, then the operator would be responsible for at least some of the management of the public services provided by the asset. For example, this would be the case for an arrangement where an operator constructs and maintains (at its discretion) a toll road on behalf of the grantor, because maintenance services are a significant component of the public services provided by the toll road. ...

Example 2(a): Facility maintenance at discretion of operator

- IG6 In this example, the facts in Example 1 apply, except that the operator is also responsible for maintenance of the school facilities by maintaining the school to a specified condition. The operator has discretion as to when and how it conducts maintenance of the school facilities.
- IG7 Based on the facts and circumstances, whilst the operator provides maintenance of the school facilities, facility maintenance does not represent a significant component of the public services provided by the school. Therefore, the operator's responsibility for maintenance does not involve the operator in managing the school services (refer paragraph B10). Accordingly, the arrangement is not a service concession arrangement and is outside the scope of AASB 1059 (paragraph 2). The maintenance services represent an outsourced service to the grantor to enable it to provide the public services through the school.

Example 2(b): Operator has management responsibilities

- IG8 In this example, the facts in Example 1 apply, except that the operator is also responsible for certain operational services, in determining how many staff are required and organising classes, teachers and administrative staff, and for maintenance of the school facilities by providing upgrades and maintaining the school to a specified condition. The operator has discretion as to when and how it carries out these responsibilities.
- IG9 Based on these facts and circumstances, the grantor concludes the operator accesses the school to provide public services and is responsible for at least some of the management of the school services. The operator fulfils this management responsibility through its significant operational and maintenance responsibilities, even though the staff are provided by the grantor (refer paragraph B10). Accordingly, the arrangement is a service concession arrangement within the scope of AASB 1059.
- IG10 The diagram below summarises the recognition and measurement requirements for assets (other than goodwill) and service concession arrangements subject to AASB 1059.

18 Stakeholders commented that they have difficulties in determining whether the criterion in AASB 1059.2(b) is met in the following circumstances:

- (a) **the operator is required to maintain the SC asset.** Stakeholders commented that it is difficult to determine whether maintenance or related services are a "significant component of the public service provided by the asset". The AASB 1059.B10 and related Illustrative Examples (IE 2(a)) seem to assume maintenance is not considered to be contributing significantly to the public services provided by schools, but it is significant for the public services provided by roads. It is unclear whether maintenance is significant for other public transport assets, such as buses and ferries, especially when the grantor manages and sets the timetables; and
- (b) **the grantor's approval is required before the operator provides public services or executes asset management activities.** There are situations where the operator prepares a detailed asset management plan and timetable for providing public services, but approval is needed from the grantor before executing the plan. Sometimes, the operator has discretion and flexibility in preparing the operations and maintenance plans, subject to the grantor's minimum standards. However, the grantor reserves the right to reject the plans if it considers them unsatisfactory. Stakeholders commented that it is unclear whether the grantor holding such 'protective rights' would mean that the operator is not "managing at least some public services at their own discretion, rather than at the discretion of the grantor."

Stakeholder suggestions

- 19 The questions used for the additional targeted outreach asked stakeholders whether they consider the criterion in AASB 1059.2(b) to be useful in distinguishing SC arrangements from other arrangements. HoTARAC commented that this criterion is essential for distinguishing SC arrangements from construction contracts with outsourced services. They requested further guidance or clarification on how this principle applies in the situations described in paragraph 18.

Staff analysis

- 20 Both IPSAS 32 and Interpretation 12 describe “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 on behalf of the grantor” (in IPSAS 32.AG3(b) and Interpretation 12.3(b)) as a common feature of an SC arrangement. However, they do not include this as a mandatory criterion for an arrangement to be within the scope of IPSAS 32 and Interpretation 12. Also, their description does not specify that the operator manages at least some public services “at their own discretion”.
- 21 The feedback indicates that the issue regarding the “operator manages at least some of the public services” criterion is related to the practical application of the criterion, rather than issues with the underlying principle.
- 22 **Potential standard-setting work:** clarify the underlying principles of this criterion and how it supports the overall assessment of whether the grantor has control of an asset.

Issue 1C: Grantor controls or regulates the service, who receives the service and the price

What is the issue?

- 23 Stakeholders raised concerns about the interpretation of how much regulation is sufficient to meet the AASB 1059.5(a) control requirements when the use of the SC asset is partly regulated and partly unregulated.
- 24 Additionally, stakeholders seek clarification on whether AASB 1059.5(a) can be met when the grantor controls or regulates only some of the three elements: the service, who receives the service and the price.

Explanation

AASB 1059 text	
5	The grantor shall recognise an asset provided by the operator and an upgrade to or a major component replacement for 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 ...
B26	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.

- 25 Stakeholders commented that there are differing views on what constitutes ‘enough’ regulation stipulated in AASB 1059.B26 when the SC asset is partly regulated and partly unregulated. They seek clarification on the following:
- (a) whether the quantum of revenue from regulated versus unregulated services can be used as an indicator;
- (b) how should the volume or value of services, or related revenue, be considered in assessing whether enough of the services are regulated, especially when it fluctuates year to year; and

(c) whether there are any other indicators that should be used to determine sufficient regulation.

- 26 Stakeholders requested guidance specifically covering arrangements relating to transport assets, ports and car parks.
- 27 Additionally, stakeholders noted that paragraph BC 29 of the Basis for Conclusions to AASB 1059, states that: "... the Board formed the view that there are three main circumstances in which a grantor controls or regulates the price, the services and/or to whom the services must be provided in accordance with paragraph 5(a)." This sentence appears to indicate that the Board was of the view that AASB 1059.5(a) can be satisfied if the grantor demonstrates control or there is regulation of **one** of the following: the service, who receives the service and the price. That is, the grantor need not control or regulate all three to satisfy AASB 1059.5(a).

Staff analysis

- 28 In respect to whether all of the three elements in AASB 1059.5(b) – the service, who receives the service and the price – need to be satisfied for the grantor to recognise the SC asset, the text in AASB 1059.5(a) is consistent with IPSAS 32.9(a) and Interpretation 12.5(a). That is, both IPSAS 32 and Interpretation 12 require the grantor to control or regulate all three elements. When developing AASB 1059, it was decided that having control or regulation over all three elements is an important criterion for distinguishing SC arrangements from outsourcing arrangements or privatisations.
- 29 IPSAS 32 and Interpretation 12 do not contain mandatory application guidance described in AASB 1059.B26 regarding partly regulated assets or services. The feedback indicates that the issue is related to the practical application of the criterion rather than issues with the underlying principle.
- 30 **Potential standard-setting work:** reconsider the guidance in AASB 1059 about partly regulated assets or services and how it interacts with the underlying principles regarding grantor control of the three elements in AASB 1059.5(a).

Issue 1D: Significant residual interest

What is the issue?

- 31 Stakeholders find it challenging to determine whether residual interest is 'significant' for the purposes of AASB 1059.5(b).

Explanation

AASB 1059 text	
5	The grantor shall recognise an asset provided by the operator and an upgrade to or a major component replacement for 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: ... (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. ...
B33	For the purpose of paragraph 5(b), the grantor's control over any significant residual interest would both restrict the operator's practical ability to sell or pledge the asset (by acknowledging the grantor's residual interest in the asset) and effectively give the grantor control of the asset throughout the period of the service concession arrangement. Consequently, where the grantor has substantive, rather than merely protective, rights to prevent the operator selling or pledging the asset during the service concession arrangement (eg the grantor must formally approve the transferee, rather than being able to refuse merely on the grounds that the transferee is not fit and proper), then the grantor is likely to have control of any significant residual interest in the asset.

B34	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.
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- 32 Stakeholders find it challenging to determine significant residual interest when the grantor is required to pay the operator to handover the SC asset at the end of the arrangement. They also commented that there is diversity in approaches and uncertainty around:
- (a) what quantitative threshold defines significant;
 - (b) how to assess remaining economic life versus relative fair values;
 - (c) how to treat replacements and lifecycle assets for the purposes of determining significant residual interest; and
 - (d) whether to use the fair value of the original asset or the replaced components at expiry in determining significant residual interest.

Stakeholder suggestions

- 33 Stakeholders suggested adding real-life examples to AASB 1059 that include the effect of common contractual alternatives at the end of the arrangement. For example, when:
- (a) assets are transferred at nil consideration and at fair value.
 - (b) a second concession term is granted to the operator; and
 - (c) assets are transferred to a new operator.

Staff analysis

- 34 The types of judgements required about residual interests under AASB 1059 may be informed by considering how those judgement are made in the context of other Standards that use residual interests or values (AASB 16 *Leases* and AASB 116 *Property, Plant and Equipment*). For example, a lessor's classification of a lease as operating or financing could depend on the significance of an unguaranteed residual value.
- 35 **Potential standard-setting work:** reconsider the guidance in AASB 1059 on assessing the significance of a residual interest in the overall assessment of whether the grantor has control of an asset.

Issue 2: Concerns with the mandatory use of the cost approach to measure the SC asset's fair value

What is the issue?

- 36 AASB 1059 requires SC assets, including intangible assets, to be measured throughout the SC arrangement at their current replacement cost (CRC), by applying the cost approach in AASB 13 *Fair Value Measurement*. This requirement is inconsistent with the principles underpinning AASB 13 and the revaluation models in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*.
- 37 Some stakeholders commented that this has resulted in similar property, plant and equipment (PPE) being measured differently depending on whether they are within the scope of AASB 1059. (Stakeholders' concerns regarding recognition and fair value measurements of intangible assets are discussed in [Issue 3](#).)

Explanation

AASB 1059 text	
Initial recognition	
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 <i>Fair Value Measurement</i> .
...	
Subsequent measurement	
9	After initial recognition or reclassification, the grantor shall account for a service concession asset during the term of the service concession arrangement as follows:
...	
	(b) references to fair value in other Standards shall be read as references to current replacement cost for service concession assets. For example, this means that current replacement cost is the basis for fair value measurement of service concession assets under a revaluation model. Furthermore, the active market requirements in AASB 138 for the revaluation of an intangible asset shall not apply.
10	The grantor shall account for a service concession asset after the end of the term of the service concession arrangement in accordance with other Accounting Standards and as specified below. In particular:
...	
	(b) references to fair value in other Standards shall no longer be read as references to current replacement cost . For example, any of the approaches in AASB 13 to fair value measurement may be applied to the asset under a revaluation model, as appropriate. Furthermore, the active market requirements in AASB 138 for the revaluation of an intangible asset shall apply; and ...

- 38 AASB 1059 requires the grantor to initially recognise SC assets at the asset's CRC, and then subsequently treat them as PPE or intangible assets by applying the revaluation models in AASB 116 and AASB 138. However, AASB 1059 does not permit all of the relevant requirements in AASB 116 and AASB 138 to be applied – it requires a grantor to ignore the AASB 13 requirements about selecting the appropriate valuation techniques and inputs,¹ and to apply the cost approach in AASB 13 throughout the SC arrangement, and to ignore the 'active market requirement' in AASB 138.²
- 39 At the end of the SC arrangement, the grantor is required to apply all the requirements set out in AASB 116 and AASB 138, including applying all relevant requirements in AASB 13. That is, after the SC arrangement, the grantor is permitted to apply any of the three (or a combination of) the three approaches in AASB 13 in measuring the asset's fair value: Market, income and cost approach.
- 40 When developing AASB 1059, the Board observed that SC assets are typically specialised infrastructure used to deliver public services. Such assets do not generate cash flows directly and are

1 AASB 13 requires an entity, when measuring an asset's fair value, to:

- (a) use 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 (AASB 13.61); and
- (b) select **inputs that are consistent with the characteristics of the asset** or liability that market participants would take into account in a transaction for the asset or liability (AASB 13.69).

2 AASB 138.81 states that: "If an intangible asset in a class of revalued intangible assets cannot be revalued because there is **no active market for this asset**, the asset shall be carried at its cost less any accumulated amortisation and impairment losses."

not traded in active markets, making market-based valuation approaches such as the market or income approach in AASB 13 less relevant.

41 Stakeholders comments indicated that:

- (a) the market and income approaches in AASB 13 are often more suitable than the cost approach for assets such as land and office buildings (assets that have an active market), and assets that provide user-pays services; and
- (b) same type of assets are valued differently depending on whether they are within the scope of AASB 1059, which does not seem appropriate.

Stakeholder suggestions

42 Stakeholders suggested permitting other fair value measurements to be applied in measuring SC assets so that SC assets would be subject to the same subsequent measurement requirements as other PPE.

Staff analysis

- 43 Staff note that when developing [AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities](#) (December 2022), the Board formed the view that AASB 13 contains sufficient guidance on selecting the appropriate valuation technique. The Board decided not to mandate a specific measurement approach for measuring the fair value of assets, and an entity needs to apply judgement to determine which valuation technique is appropriate based on the facts and circumstances relating to the specific asset (AASB 2022-10.BC230).
- 44 **Potential standard-setting work:** consistent with that Board view, staff consider there would be merit in considering not mandating the use of CRC in measuring SC assets.

Issue 3: Concerns with recognising previously unrecognised intangible assets as SC assets and measuring them at fair value

What is the issue?

- 45 Some intangible assets, including data or databases, are prohibited from recognition under AASB 138. However, AASB 1059 requires such assets to be recognised by the grantor if the scope and asset control criteria set out in AASB 1059.2 and 5 are met.
- 46 Some stakeholders disagree with recognising such assets on the grantor's balance sheet since it is inconsistent with AASB 138. Other stakeholders agree that such assets should be recognised by the grantor (and also recognising the related liabilities) when the scope and asset control criteria are met; however, they have significant concerns about requiring such assets to be measured at fair value.

Explanation

- 47 AASB 138.81 states that: "If an intangible asset in a class of revalued intangible assets cannot be revalued because there is **no active market for this asset**, the asset shall be carried at its cost less any accumulated amortisation and impairment losses." However, AASB 1059.9 (quoted in Issue 2 above) requires a grantor to ignore that AASB 138 requirement and to measure intangible assets that are within the scope of AASB 1059 at CRC throughout the SC arrangement.

48 Stakeholders' concerns are mainly related to land registers. They have raised three concerns:

- (a) **Recognition might be inappropriate.** Intangible assets containing data are prohibited from recognition under AASB 138, but are required to be recognised under AASB 1059. Stakeholders commented that it is unclear that recognising such 'previously unrecognised intangible assets' on balance sheet would increase the usefulness of the financial statements, due to:
 - (i) high volatility in value;
 - (ii) unreliable measurement inputs; and
 - (iii) significant estimation uncertainty.
- (b) **Measuring such assets at fair value is inappropriate.** Land registry assets are unique assets that do not have an active market. In accordance with AASB 138.81, where a class of revalued intangible assets cannot be revalued because there is no active market for this asset, "the asset shall be carried at its cost less any accumulated amortisation and impairment losses"; however, AASB 1059 mandates fair value.
- (c) **Measuring such intangible assets at CRC resulted in anomalous outcomes that do not reflect the economic substance of the SC arrangement.** Stakeholders commented that where the asset has an indefinite useful life, the price paid by the operator is significantly different to the cost of generating it. This results in an asymmetrical outcome with a large GORTO liability and large revenue compared to a relatively low SC asset value and no depreciation. Stakeholders also provided the following measurement challenges regarding land registries:
 - (i) registries evolve over decades; CRC is often unobservable due to a lack of comparable recent projects;
 - (ii) it is difficult to separate registry development costs from broader IT infrastructure; and
 - (iii) in relation to the subsequent measurement for new records to a database, stakeholders find the accounting treatment to be unclear. They question – should new records increase the SC asset (if deemed to be **maintaining** the registry's service capacity) or increase the GORTO liability (if it is deemed to be **enhancing** the registry's service capacity).

Stakeholder suggestions

49 Stakeholders suggest reconsidering the recognition and measurement requirements for previously unrecognised intangible assets.

Staff analysis and potential standard-setting work

50 Staff consider there is merit in exploring alternative approaches to address stakeholders' concerns and potentially being more closely aligned with AASB 138.

Issue 4: Costs exceed benefits of scoping into AASB 1059 arrangements where the operator does not provide construction or upgrade services

What is the issue?

51 Some stakeholders noted that the costs outweigh the benefits of assessing whether arrangements in which the operator only provides operational services fall within the scope of AASB 1059. This is because there is little effect on the grantor's balance sheet or income statement regardless of

whether such arrangements are scoped in or out. However, the effort required to determine whether the scope and asset control criteria in AASB 1059.2 and 5 are met has been significant.

- 52 In addition, the costs of remeasuring existing PPE to CRC when reclassified as SC assets appear unjustified, given that existing PPE is already measured at fair value.

Explanation

AASB 1059 text	
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 measure 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. This approach does not mean that the grantor has adopted the revaluation model.
9	After initial recognition or reclassification, the grantor shall account for a service concession asset during the term of the service concession arrangement as follows: (a) depreciate or amortise the depreciable amount of the asset over the useful life in accordance with AASB 116 <i>Property, Plant and Equipment</i> or AASB 138 <i>Intangible Assets</i>, as appropriate, with any impairment recognised in accordance with AASB 136 <i>Impairment of Assets</i>; and ...
11	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 12.

- 53 From the operator's perspective, 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] That is, for an arrangement to be within the scope of Interpretation 12, the operator is contracted to provide both construction or upgrade services and operation services.
- 54 However, from the grantor's perspective, an arrangement can be within the scope of AASB 1059 even if the operator is not providing construction or upgrade services and is merely engaged to provide operation services by operating and maintaining the grantor's existing PPE (e.g operating and maintaining a prison).
- 55 AASB 1059 requires a grantor to:
- (a) for construction or upgrade services provided by the operator – apply the accounting requirements in AASB 1059 to recognise the SC asset provided by the operator and recognised related liabilities;
 - (b) for the grantor's existing PPE that will be used and operated by the operator (or form part of the SC asset provided by the operator) – reclassify these assets as SC assets and remeasure them at CRC on the date of reclassification [AASB 1059.8]; and
 - (c) for the operation services provided by the operator – apply other applicable Accounting Standards, as AASB 1059 does not prescribe the accounting for operation services.
- 56 Some stakeholders commented that when arrangements where the operator provides only operational services (without construction or upgrade services) are scoped into AASB 1059, the main

effect on the grantor's financial statements – aside from disclosure requirements – relates to changes in asset values due to remeasuring existing PPE to CRC at the date of reclassification as SC assets.

- 57 PPE of public sector entities is usually measured under the revaluation model in AASB 116. Consistent with the feedback noted in Issue 2, some stakeholders commented that it would be inappropriate for existing PPE (e.g. land) that has been measured using other fair value measurement techniques (e.g. market or income approach) to be remeasured using CRC.
- 58 Furthermore, stakeholders are of the view that scoping into AASB 1059 arrangements where the operator does not provide construction or upgrade services would unlikely provide much additional information to users of financial statements, but the costs and effort in determining whether the scope and asset control criteria in AASB 1059.2 and 5 are met have been exhaustive.

Stakeholder suggestions

- 59 Stakeholders suggested excluding arrangements from AASB 1059 where the operator is not required to provide construction or upgrade services.

Staff analysis

- 60 The grantor's existing PPE is already recognised on balance sheet (i.e. grantor's control has already been established) and measured at fair value. Staff consider that there might be merits in reassessing the costs and benefits of requiring the grantor to assess the scope and asset control criteria in AASB 1059 for arrangements involving only the grantor's existing assets.
- 61 For arrangements where the grantor's existing assets is required to be reclassified as part of the SC assets provided by the operator, staff consider it appropriate to allow these assets to be reclassified at their carrying amount rather than requiring remeasurement to fair value at the date of reclassification.
- 62 **Potential standard-setting work:** consider limiting the scope of AASB 1059 to arrangements where the operator is required to provide both construction or upgrade services and operation services. This would align the scope of AASB 1059 more closely with that of Interpretation 12.

Issue 5: Costs exceed benefits of scoping into AASB 1059 arrangements where the grantor and the operator are entities within the same government

What is the issue?

- 63 Stakeholders commented that the costs exceed the benefits of scoping into AASB 1059 arrangements where the grantor and the operator are both public sector entities within the same government, since the AASB 1059 accounting treatment would be eliminated on consolidation.

Explanation and stakeholder suggestions

- 64 Both IPSAS 32 and Interpretation 12 apply only to public-to-private arrangements. AASB 1059 also applies to public-to-public arrangements.
- 65 ACAG and HoTARAC commented that the costs outweigh the benefits in applying AASB 1059 to intra-group arrangements and suggested scoping them out. This is because:
- (a) intra-group transactions are reversed on consolidation; and

- (b) public sector entities often cannot act on behalf of each other due to legislative boundaries, making the 'operator providing public services on behalf of the grantor' concept in AASB 1059.2(a) problematic.

- 66 However, ACAG suggested that before proceeding to scoping out these arrangements, it would be useful to revisit the AASB's rationale for scoping in public-to-public arrangements when developing AASB 1059 because this is a modification to IPSAS 32.
- 67 PwC supported scoping in public-to-public arrangements, but requested more guidance to reduce diversity relating to applying the terms 'on behalf of the grantor', 'public services' and when operator is 'managing at least some of the services under its own discretion' to intra-group arrangements.
- 68 Stakeholders also commented that there might be a need to clarify the interaction between AASB 1059 and AASB 10 *Consolidated Financial Statements*. If the operator is controlled by the grantor, it may limit the operator's discretion.

Staff analysis

- 69 Staff note that Accounting Standards are set to apply to reporting entities and, in principle, a transaction is typically accounted for from the reporting entity perspective, not whether the transaction accounting treatment is reversed on consolidation. However, these circumstances may change the cost-benefit analysis.
- 70 As explained in paragraphs 4 and 5 of Agenda Paper 5.1, the main reason the Board developed AASB 1059 was to ensure that SC assets and related liabilities are being recognised in the public sector to assist users of financial statements to understand the resources and in the provision of public services. Therefore, if there is certainty that SC assets and related liabilities of intra-group SC arrangements are being recognised even if the arrangement is scoped out of AASB 1059, there might be merit in reconsidering the current scope of AASB 1059.
- 71 **Potential standard-setting work:** investigate what the accounting would be for the grantor and operator if intra-group arrangements (that meet the scope and asset control criteria set out in AASB 1059.2 and 5) were scoped out of AASB 1059.

Issue 6: Clarify which entity is the grantor when multiple public sector entities are involved in an SC arrangement

What is the issue?

- 72 Some stakeholders request clarification on which public sector entity is considered the grantor, and therefore should recognise the SC asset and related liabilities, when control over the SC asset rests with one entity, while control over the related services and pricing lies with another.

Explanation

- 73 It is common for multiple public sector entities (with differing roles and responsibilities) to be party to an arrangement, and stakeholders have challenges identifying who the grantor is in the following situations:
 - (a) one entity holds the legal right to hold the SC asset, but the legal right for service delivery using the SC asset and to control pricing of the services sits with another entity;
 - (b) SC assets are used to provide multiple public services, each of which is controlled by different government entities (e.g. building that provides social housing and medical support);

- (c) contracts are signed by central agencies on behalf of their subsidiary entities; and
- (d) the contract is signed by one entity, but is executed by another entity within the government. In this situation, should the arrangement be reported by the executing entity as an administered item (by applying [AASB 1050 Administered Items](#) by analogy), or whether the arrangement should be recognised only at the whole of government consolidated level.

74 In the situations described above, no single public sector entity has control over all three elements outlined in AASB 1059.5(a): the price, the service, and who receives those services. However, when considering the control or regulation rights of related public sector entities, they collectively possess control over all three elements.

Staff analysis

- 75 Staff note the multiple entities within a whole of government that might be involved in an SC arrangement might each prepare stand-alone general purpose financial statements (GPFS) even though they are also consolidated into the relevant government's consolidated GPFS and, in some cases, also consolidated into its immediate parent entity, such as a government department.
- 76 A government department often manages income, expenses, assets, and liabilities on behalf of its government. AASB 1050, which applies only to government departments, requires government departments to not recognise administered income, expenses, assets, and liabilities on their own income statement and balance sheet, but disclose them in the notes to the GPFS. Some stakeholders have commented that the administered item principles could be applied by all forms of government entities, and not just government departments.
- 77 **Potential standard-setting work:** consider providing additional guidance on determining which entity should be required to recognise the SC asset and related liabilities when multiple public sector entities are involved in an SC arrangement. This may include considering whether the administered items principles could be applied.

Appendix: Summary of other matters on which further clarification or guidance are sought

A1 In addition to the six main issues discussed in the body of the paper, stakeholders request clarification or further guidance on the following topics.

- 1 Provide clearer guidance on distinguishing a financial liability from a GORTO liability, especially when the grantor collects revenue and bears economic risks.
- 2 Whether a liability needs to be measured at the same amount as the SC asset as the asset is being constructed, on completion or both.
- 3 Whether an SC asset under construction is required to be measured at capitalised costs or at fair value during the construction period.
- 4 The accounting treatment of minor capital additions to an SC asset.
- 5 The accounting treatment where there are modifications to an SC arrangement involving the operator providing an additional SC asset or additional services, or changes to the concession period.
- 6 In an SC arrangement involving a GORTO liability, whether increases in construction costs absorbed by the operator are recognised as adjustments to the asset's value (by adjusting the asset revaluation reserve) or adjustments to the GORTO liability.
- 7 The accounting treatment of variable payments to the operator, including 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. Some stakeholders commented that:
 - (a) AASB 9 *Financial Instruments* may not be suitable, and an AASB 16-type approach, which requires adjustments to assets and liabilities when changes occur, may be more appropriate; and
 - (b) it might be useful to define "specified or determinable amounts" in AASB 1059.16, including explaining the treatment of unobservable inputs and amounts that do not meet the definition.
- 8 The amortisation of the GORTO liability when a particular component of the asset is replaced during the concession period.
- 9 The accounting treatment for lifecycle costs paid to the operator to maintain the SC asset in a specified condition.
- 10 Clarify that the grantor providing government subsidies (e.g. aged care) does not mean that the grantor controls the pricing under AASB 1059.5(a), as operators can set customer prices.
- 11 Review SC asset disclosures; reporting SC assets as a separate class of assets may reduce transparency compared to conventional categories like land or infrastructure.
- 12 Clarify the treatment of implied funding costs and ensure AASB 1059 is consistent with AASB 13.
- 13 Clarify that existing grantor-owned land used for SC assets should be reclassified as SC assets.