



ACT
Government

Chief Minister, Treasury and
Economic Development

Ms K Peach
Chair
Australian Accounting Standards Board
PO Box 204
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Dear Ms Peach

Proposed Extension of Application Dates of AASB 1059 *Service Concession Arrangements: Grantors*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC supports the AASB's efforts to issue high quality standards suitable for the Australian context (incorporating both the private and public sectors). This includes accounting for revenue from contracts with customers (AASB 15 and the related NFP implementation guidance), accounting for income by not-for-profit entities (AASB 1058), and grantor accounting for service concession arrangements (AASB 1059). The implementation of these standards/guidance will significantly improve the quality of financial reporting.

HoTARAC requests the AASB consider extending the application date of AASB 1059 (annual reporting periods beginning on or after 1 January 2019). In summary, our reasons for this request are:

- the shorter implementation timeframe compared to the other new standards applicable from 1 January 2019;
- greater technical challenges in understanding and applying concepts unique to the public sector;
- practical implementation challenges and the expected scale of change required for implementation; and
- the need for extensive consultation with key stakeholders on changes that only impact Australia, including the Australian Bureau of Statistics (ABS) and credit ratings agencies.

In addition, given a government's time requirements to publish budget papers and other forward looking documents, the public sector needs to assess the impacts of new accounting standards well in advance of these publications, and the decisions that precede each publication. More information on these reasons is provided below.

Shorter Implementation Timeframe

AASB 1059 was issued in July 2017, seven months later than the last of the other new Standards.

Technical Challenges

AASB 1059 is specific to Australia and to the public sector. The concepts and impacts are, therefore not as well understood compared to other accounting standards by preparers or other stakeholders, including credit ratings agencies.

AASB 1059 also brings together significant new concepts, including right to access, control criteria, public services, partly regulated assets, third-party regulation, and operator's responsibility (managerial vs ancillary services). Many of these concepts are not well defined and understanding how these will apply in practice will require extensive deliberation and careful consideration.

The scoping requirements of AASB 1059 means an assessment of a broad range of arrangements, that could be leases or outsourcing, will need to be reviewed. These arrangements are inherently unique and complex, meaning each will need to undergo a separate, detailed evaluation. Many arrangements contain composite features that make a clear binary assessment of each scoping criteria extremely challenging.

Practical Challenges

Agencies often have limited access to service concession assets operated by the private sector partner and information about these assets. While steps are being taken to address this access, it does present practical challenges in a relatively short timeframe.

The modified retrospective approach in AASB 1059 is a simpler transition method not requiring historical data. However, this approach, in some instances, results in a significantly lower grant of right liability at transition compared to the asset. This will happen especially in arrangements that are in the early stages of concession. Consequently, public sector grantors are more likely to consider the full retrospective approach which requires historical data.

Other Stakeholders

From our interaction with the ABS, credit rating agencies and other stakeholders, we understand they are still formulating an appropriate approach to suit their respective objectives. For instance, AASB 1059 is expected to significantly impact fiscal aggregates and credit metrics.

The control approach of AASB 1059, is different to the 'risks and rewards' approach used by the ABS. HoTARAC members will need to liaise with the ABS to evaluate the impact on Government Financial Statistics and, therefore AASB 1049.

These challenges are further magnified by the lack of points of reference for the changes, given this is a new Standard and there is no uniform accounting policy at present.

In summary, HoTARAC requests an extension of a further 12 months from the application date, to adequately consider and address all the challenges elaborated above. However, the option for jurisdictions to early adopt AASB 1059 should be retained.

If you have any queries regarding HoTARAC's request or require additional information, please contact Sean Osborn from the New South Wales Treasury on (02) 9228 5932 or by email to sean.osborn@treasury.nsw.gov.au.

Yours sincerely



David Nicol
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

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