



Project:	AASB 1059 <i>Service Concession Arrangements: Grantors</i>	Meeting:	September 2019 (M172)
		Agenda Item:	8.1
Topic:	Implementation issues	Date of Agenda Paper:	4 September 2019
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		Decision-Making:	High
		Project Status:	Consider constituents' feedback on Fatal-Flaw Review draft

Objective of this paper

1. The objective of this paper is for the Board to consider feedback on the Fatal-Flaw Review draft of an amending Standard that proposes amendments to AASB 1059 *Service Concession Arrangements: Grantors* to address implementation issues raised by constituents and **decide** on the amendments to AASB 1059.

Reasons for the Board to consider this paper at this meeting

2. AASB 1059 is effective for annual reporting periods beginning on or after 1 January 2020, with a date of initial application at the beginning of the earliest reporting period for which comparative information is presented in the financial statements.
3. A Fatal-Flaw Review (FFR) draft of an amending Standard that proposes amendments to AASB 1059 was issued on 16 June 2019, with a comment period of 30 days. Four submissions were received.
4. In this meeting, staff ask the Board to consider feedback on the FFR draft amending standard and staff recommendations.

Summary of staff recommendations

5. Staff recommend the following:
 - (a) extend the practical expedient to not apply AASB 16 to any assets that would be captured under AASB 1059 when it is applied, rather than only those service concession assets that are currently recognised as leased assets under AASB 117 *Leases* (Issue 1);
 - (b) include an additional paragraph to specify the recognition and measurement requirement for the unearned revenue arising from additional consideration received for granting the operator access to the grantor's existing assets on transition to AASB 1059 under the modified retrospective approach (Issue 2);

- (c) amend AASB 1059 paragraph C4(b) to specify that, under the modified retrospective approach, the financial liability should be recognised in accordance with AASB 9 *Financial Instruments* (Issue 3);
- (d) amend paragraph B76 of AASB 1059 to clarify that the grantor's policy choice to continue applying insurance accounting is limited to contracts that meet the definition of a financial guarantee under AASB 9, if they have previously been accounted for as insurance contracts (Issue 4); and
- (e) editorial amendments to paragraph IG10 and IG13 in the implementation guidance (Appendix A).

Attachments

- 8.2 Amendment section of revised draft amending Standard
- 8.3 Marked-up version of draft amending Standard (amendment section) showing changes made to the Fatal-Flaw Review draft version [for noting]
- 8.4 Submissions received on the FFR draft Standard – EY, ACAG, HoTARAC
- 8.5 Submission from NSW Treasury on the FFR draft Standard **[Board Only]**

Structure

- 6. This staff paper is set out as follows:
 - (a) Background (paragraphs 7–12 [Background](#))
 - (b) Key issues for consideration:
 - Issue 1: Service concession arrangements not previously accounted for under AASB 117 (paragraphs 13–20)
 - Issue 2: Modified retrospective approach – clarify the recognition and measurement of additional consideration received from the operator for access to the grantor's existing assets on transition (paragraphs 21–29)
 - Issue 3: Modified retrospective approach – clarify the recognition and measurement of a financial liability on transition (paragraphs 30–39)
 - Issue 4: Clarifying the accounting requirements for compensation for revenue shortfalls (paragraphs 40–52)
 - (c) Due process and next steps (paragraphs 53–55)
 - (d) [Appendix A](#): Suggested editorial amendments to the Implementation Guidance in AASB 1059
 - (e) [Appendix B](#): Other implementation issues.

Background

7. At the April 2019 Board meeting, the Board decided to amend AASB 1059 *Service Concession Arrangements: Grantors* and AASB 16 *Leases* to:
 - (a) change the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 so that the GORTO liability is initially measured based on the current replacement cost of the service concession asset at the date of initial application adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the service concession asset;
 - (b) modify AASB 16 to provide a practical expedient to grantors of service concession arrangements so that AASB 16 would not need to be applied to assets recognised under AASB 117 *Leases* that would be recognised as service concession assets under AASB 1059, permitting grantors to continue their existing accounting for the service concession assets until AASB 1059 is applied; and
 - (c) include editorial amendments to paragraphs IG10 and IG13 in the implementation guidance.
8. A Fatal-Flaw Review (FFR) draft version of the proposed amending Standard was released for public comment on 16 June 2019. Four submissions were received. The respondents were Ernst & Young (EY), the Australasian Council of Auditors-General (ACAG), the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), and NSW Treasury.
9. All respondents agree with the proposed amendment to change the modified retrospective method for measuring the GORTO liability, as set out in the revised paragraph C4(c) of AASB 1059 in the FFR draft, so that the GORTO liability is initially measured based on the current replacement cost of the service concession asset at the date of initial application adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the service concession asset.
10. However, respondents have raised some additional implementation issues regarding AASB 1059 and request that the AASB consider these issues. Staff have considered stakeholders' comments and have identified four key issues that require the Board's decision in this meeting. These issues are addressed in this staff paper.
11. [Appendix A](#) analyses minor amendments to the Implementation Guidance paragraphs IG10 and IG13 of AASB 1059. For the reasons set out in the Appendix, staff recommend that the Board approve amendments to AASB 1059.
12. [Appendix B](#) analyses other issues raised by stakeholders. For the reasons set out in the Appendix, staff do not believe these issues require any changes to AASB 1059.

Key issues for consideration

Issue 1: Service concession arrangements not previously accounted for under AASB 117

Summary of issues

13. At the April 2019 meeting, the Board decided to modify AASB 16 to provide a practical expedient for grantors of service concession arrangements so that they would not need to apply AASB 16 for one year to assets that would be classified as service concession assets in accordance with AASB 1059.

14. Consequently, a new paragraph was proposed to be included in AASB 16, as exposed in the FFR draft version of the proposed amending Standard. The proposed paragraph AusC4.1 states:

AusC4.1 Notwithstanding paragraphs C3 and C4, a public sector entity is not required to apply this Standard to assets previously accounted for under AASB 117 that would be classified as service concession assets in accordance with AASB 1059 *Service Concession Arrangements: Grantors*. The entity shall continue to apply its existing accounting policy to these assets until AASB 1059 is applied. [emphasis added]

15. EY and NSW Treasury commented that it would be beneficial to allow the practical expedient to be applied to all assets that would be classified as service concession assets under AASB 1059, rather than only to those service concession assets that are currently (or will be) recognised under AASB 117.

16. NSW Treasury explained that most of NSW's toll road public-private-partnerships have been accounted for as emerging assets rather than leases under AASB 117. NSW Treasury is of the view that it would be an extremely onerous task for agencies to assess all their emerging asset arrangements under AASB 16, and that it would not be a beneficial exercise as preliminary scoping assessments indicate that these toll road arrangements are expected to fall in scope of AASB 1059.

Staff analysis

17. In drafting the FFR draft, it was expected that assets that could be covered by AASB 16 would be subject to AASB 117 previously, and hence the relief for assets that would be accounted for as service concession assets under AASB 1059 was proposed to be limited to assets previously accounted for under AASB 117. However, the submissions indicate that this limitation on the relief from AASB 16 is too narrow, as some service concession assets will not have been accounted for under AASB 117. The policy underlying the FFR draft was to ensure that service concession assets did not need to be subject to AASB 16 for one year, as that most likely would be onerous.

18. Staff are of the view that the potential costs in assessing whether to apply AASB 16 for one year (and if so, applying that Standard) for all assets arising under service concession arrangements in 2019/20 would outweigh the benefits if these transactions would be accounted for under AASB 1059 in 2020/21.

Staff recommendation

19. Based on paragraph 28(d)¹ of *The AASB's Not-for-Profit Entity Standard-Setting Framework*, staff recommend the Board extend the practical expedient so that grantors do not have to assess whether AASB 16 would apply to any assets that would be captured under AASB 1059 when it is applied.
20. If the Board agrees with the staff recommendation, staff recommend amending the proposed paragraph AusC4.1 in AASB 16 as follows (deleted text struck through):

AusC4.1 Notwithstanding paragraphs C3 and C4, a public sector entity is not required to apply this Standard to assets ~~previously accounted for under AASB 117~~ that would be classified as service concession assets in accordance with AASB 1059 *Service Concession Arrangements: Grantors*. The entity shall continue to apply its existing accounting policy to these assets until AASB 1059 is applied.

Questions to the Board:

Q1: Do Board members agree with the staff recommendation in paragraph 19 to extend the practical expedient so that grantors do not have to assess whether AASB 16 would apply to any assets that would be captured under AASB 1059 when it is applied?

Q2: Do Board members agree with the staff recommendation for revising the wording of the proposed paragraph AusC4.1 of AASB 16?

Issue 2: Modified retrospective approach – clarify the recognition and measurement of additional consideration received from the operator for access to the grantor's existing assets on transition

Summary of issues

21. ACAG and HoTARAC commented that AASB 1059 is unclear about the recognition and measurement of additional consideration given by the operator for access to the grantor's existing assets that have been reclassified as service concession assets, on transition under the modified retrospective approach.
22. ACAG and HoTARAC also commented that it would not be appropriate to include the additional consideration as part of a Grant of a Right to the Operator (GORTO) liability calculation on transition under paragraph C4(c)² of AASB 1059. This is because the additional consideration is not

1 Paragraph 28(d) of *The AASB's Not-for-Profit Entity Standard-Setting Framework* states that a justifiable circumstance that the Board would consider in developing NFP guidance is "undue cost or effort of preparing and disclosing information outweigh the benefits".

2 Paragraph C4(c) of AASB 1059 states that "measure a liability representing the unearned portion of any revenue arising from the receipt of a service concession asset under the grant of a right to the operator model at the fair value (current replacement cost) of the related service concession asset at the date of initial application, adjusted to reflect the remaining period of the service concession arrangement relative to remaining economic life of the asset, less any related financial liabilities measured in accordance with paragraph (b)" [emphasis added]

linked to the asset that the operator has provided to the grantor, but rather an unearned revenue for providing the operator access to the grantor's existing assets.

Staff analysis

23. Paragraph 11³ of AASB 1059 states that a liability should be recognised by the grantor where additional consideration is provided by the operator for access to the grantor's existing assets that have been reclassified as service concession assets. Therefore, staff consider a liability should be recognised on transition to AASB 1059 for the unearned revenue arising from any additional consideration received for granting access to the grantor's existing assets to the operator.
24. Staff note that paragraph C4(c) of AASB 1059 is specific to the GORTO liability calculation arising from 'the receipt of a service concession asset' provided by the operator (as quoted in footnote 2), and does not include any liability arising from additional consideration received for granting access to the grantor's existing assets.
25. Staff agree with and ACAG and HoTARAC that the liability arising from unearned revenue for granting access to the grantor's existing assets should not be calculated in the same way as the GORTO liability arising from service concession assets provided by the operator. This is because the GORTO liability calculation under the modified retrospective approach in paragraph C4(c) of AASB 1059, as quoted in footnote 2, is calculated based on a portion of the current replacement cost of the service concession asset provided by the operator, and the additional consideration for access to the grantor's existing asset has no correlation to that asset.

Staff recommendation

26. Staff recommend specifying the recognition and measurement requirement, on transition to AASB 1059 under the modified retrospective approach, for the unearned revenue arising from additional consideration received for granting access to the grantor's existing assets to the operator.
27. Staff consider that the modified retrospective calculation may be calculated as follows:

$$\text{Proceeds received} \times \frac{\text{Remaining period of service concession arrangement}}{\text{Total period of arrangement}}$$

28. Staff are of the view that, as a short-cut method, the above calculation would appropriately reflect the unearned portion of proceeds received for granting access to the grantor's existing assets to the operator on transition to AASB 1059. This calculation is consistent with the Board's decision in April 2019 Board meeting to amend the modified retrospective GORTO liability calculation for service concession assets received. That proposed calculation is as follows:

$$\text{Current replacement cost of service concession asset received} \times \frac{\text{Remaining period of service concession arrangement}}{\text{Total period of arrangement}}$$

3 Paragraph 11 of AASB 1059 states that "... 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." [emphasis added]

29. If Board members agree with the staff recommendation, staff recommend including an additional transition paragraph in paragraph C4 of AASB 1059 – a new paragraph C4(d) – and renumbering the subsequent sub-paragraphs, as indicated below (new text underlined and deleted text struck through). The Board’s proposed revised wording for paragraph C4(c) to change the GORTO liability calculation mentioned in paragraph 28 has been included for the Board’s reference.

C4 If a grantor elects to apply this Standard retrospectively in accordance with paragraph C3(b), the grantor shall:

...

(c) measure a liability representing the unearned portion of any revenue arising from the receipt of a service concession asset under the grant of a right to the operator model at the fair value (current replacement cost) of the related service concession asset at the date of initial application, adjusted to reflect the remaining period of the service concession arrangement relative to the ~~remaining economic life of the asset~~ total period of the arrangement, less any related financial liabilities measured in accordance with paragraph (b);

(d) measure a liability representing the unearned portion of any revenue arising from the receipt of additional consideration from the operator for access to an existing asset of the grantor that has been reclassified as a service concession asset at the proceeds received, adjusted to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement;

Questions to the Board:

Q3: Do Board members agree with the staff recommendation in paragraph 26 to specify the recognition and measurement requirement for the unearned revenue arising from additional consideration received for granting the operator access to the grantor’s existing assets on transition to AASB 1059 under the modified retrospective approach?

Q4: Do Board members agree with the drafting of the proposed new paragraph C4(d) to be included in AASB 1059?

Issue 3: Modified retrospective approach – clarify the recognition and measurement of a financial liability on transition

Summary of issues

30. NSW Treasury commented that AASB 1059 is unclear on how the following should be measured on transition to the Standard under the modified retrospective approach:

- Issue 3A – the financial liability, under the financial liability model; and
- Issue 3B – hybrid arrangements.

31. AASB 1059 paragraph C4 states the recognition and measurement requirements on transition under the modified retrospective approach. Sub-paragraphs of AASB 1059 paragraph C4 that are relevant to the financial liability model and hybrid arrangements and paragraph C7 have been included below (emphasis added) for the Board’s reference:

- C4 If a grantor elects to apply this Standard retrospectively in accordance with paragraph C3(b), the grantor shall:
- (a) measure the deemed cost of a service concession asset (including an existing asset of the grantor reclassified as a service concession asset) at fair value (current replacement cost) at the date of initial application;
 - (b) measure a financial liability arising under a service concession arrangement in accordance with this Standard at the date of initial application;
 - (c) measure a liability representing the unearned portion of any revenue arising from the receipt of a service concession asset under the grant of a right to the operator model at the fair value (current replacement cost) of the related service concession asset at the date of initial application, adjusted to reflect the remaining period of the service concession arrangement relative to the remaining economic life of the asset, less any related financial liabilities measured in accordance with paragraph (b);
- ...
- C7 If a grantor applies this Standard retrospectively in accordance with paragraph C3(b), the measurement of liabilities arising under the financial liability model at the date of initial application is addressed in paragraph C4(b). Paragraph C4(c) addresses liability measurement under both the grant of a right to the operator model and hybrid arrangements, as it requires the measurement of the liability relating to the grant of a right to the operator to exclude any related financial liabilities.

Issue 3A – Financial liability under the financial liability model

32. NSW Treasury noted that it is unclear whether the words “in accordance with this Standard” in AASB 1059 paragraph C4(b) refers to the initial recognition requirements, under paragraphs 11–12 and paragraph B64 of AASB 1059, or the subsequent measurement requirements under paragraph B65 of AASB 1059.
33. Specifically, NSW Treasury requests clarification on whether, under the modified retrospective approach, the financial liability under the financial liability model should be measured at:
- the same amount as the current replacement cost of the service concession asset received – similar to initial recognition requirement in AASB 1059 paragraph 12⁴; or
 - the remaining payments owing to the operator based on third-party usage of the asset – similar to the subsequent measurement requirement under AASB 1059 paragraph B65⁵.

4 AASB 1059 paragraph 12 states that “The liability recognised in accordance with paragraph 11 shall be initially measured at the same amount as the service concession asset, adjusted by the amount of any other consideration (eg the transfer of an existing asset) from the grantor to the operator, or from the operator to the grantor.” [emphasis added]

5 AASB 1059 paragraph B65 states that “After initial recognition, the grantor applies AASB 9 to the subsequent measurement of a financial liability. For example, when the financial liability is measured at amortised cost and there is a difference between the expected payments and the actual payments by the grantor to the operator based on third-party usage of the service concession asset, the amortised cost is recalculated based on revised estimated cash flows discounted at the original effective interest rate. The adjustment is recognised in profit or loss as income or expense.” [emphasis added]

Issue 3B – Hybrid arrangements

34. NSW Treasury also requested that the Board clarifies how hybrid arrangements should be measured on transition under the modified retrospective approach.

Staff analysis

Issue 3A – Financial liability under the financial liability model

35. Staff are of the view that AASB 1059 can be made clearer to specify the measurement requirements of the financial liability when the modified retrospective approach is applied on transition to the Standard.
36. Staff consider, as a short-cut method on transition, measuring the financial liability at the actual remaining payments owing to the operator, in accordance with AASB 9 *Financial Instruments*, would be more appropriate than measuring it at the same amount as the current replacement cost of the service concession asset received on the date of initial application. This is because:
- this approach would be in line with the subsequent measurement of the financial liability under the Standard; and
 - service concession assets are often required to be maintained at a specified level and therefore their fair value might not have diminished significantly, even though the arrangement might be due to end soon. It would not be appropriate to recognise a large financial liability when the actual liability to pay cash is less than the current replacement cost of the asset on the date of initial application.

Issue 3B – Hybrid arrangements

37. Staff are of the view that clarifying the measurement requirement of the financial liability under the financial liability model would simultaneously clarify the measurement requirements for hybrid arrangements under the modified retrospective approach. This is because:
- paragraph C4(c) states that the financial liability calculated under paragraph C4(b) would be deducted from the GORTO liability; and
 - paragraph C7 of AASB 1059 clearly states that “... Paragraph C4(c) addresses liability measurement under both the grant of a right to the operator model and hybrid arrangements, as it requires the measurement of the liability relating to the grant of a right to the operator to exclude any related financial liabilities.”

Staff recommendation

38. Staff recommend amending paragraph C4(b) of AASB 1059 to specify that, under the modified retrospective approach, the financial liability should be recognised in accordance with AASB 9.
39. If Board members agree with the staff recommendation, staff recommend amending paragraph C4(b) as follows (new text underlined and deleted text struck through):
- C4 If a grantor elects to apply this Standard retrospectively in accordance with paragraph C3(b), the grantor shall:

...

- (b) measure a financial liability arising under a service concession arrangement in accordance with ~~this Standard~~ AASB 9 at the date of initial application;

...

Questions to the Board:

Q5: Do Board members agree with the staff recommendation in paragraph 38 to specify that, under the modified retrospective approach, the financial liability should be recognised in accordance with AASB 9?

Q6: Do Board members agree with the staff recommendation for revising the wording of paragraph C4(b) of AASB 1059?

Issue 4: Clarifying the accounting requirements for compensation for revenue shortfalls

Summary of issues

Issue 4A – Clarify whether compensation for revenue shortfalls should be recognised under AASB 9

40. Paragraphs 15–17 of AASB 1059 state (emphasis added):

- 15 Where the grantor has a contractual obligation to deliver cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the grantor shall account for the liability recognised in accordance with paragraph 11 as a financial liability.
- 16 The grantor has a contractual obligation to pay cash if it has agreed to pay the operator specified or determinable amounts, such as payments relating to the following:
- (a) third-party usage of a service concession asset, with or without guaranteeing a minimum amount to the operator; or
 - (b) the shortfall, if any, between amounts received by the operator from users of the service concession asset and any other specified or determinable amounts payable by the grantor, even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.
- 17 *AASB 9 Financial Instruments, AASB 132 Financial Instruments: Presentation and AASB 7 Financial Instruments: Disclosures* apply to the financial liability recognised under paragraph 11, except where this Standard specifies otherwise.

41. AASB 1059 paragraphs 15–17 require the grantor to recognise a financial liability under AASB 9 where there is a contractual obligation to deliver cash, including compensation for revenue **shortfalls**. However, EY noted that paragraph B75 of AASB 1059 also made reference to ‘shortfalls’ and might mislead readers that insurance Standards can be applied in measuring the liability to compensate revenue shortfalls under certain circumstances.

42. Paragraphs B75–B78 state (emphasis added):

- B75 Service concession arrangements may include various forms of financial guarantees (eg a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development, acquisition or upgrade of a service concession asset) or

performance guarantees (eg a guarantee of minimum revenue streams, including compensation for shortfalls).

- B76 The grantor determines whether guarantees provided by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract. If so, the grantor applies AASB 7, AASB 9 and AASB 132 in accounting for the guarantee. Where the guarantee is regarded as an insurance contract, the grantor can elect to apply AASB 4 *Insurance Contracts* or AASB 1023 *General Insurance Contracts* instead if it has previously used accounting applicable to insurance contracts for such guarantees.
- B77 Guarantees and commitments that do not meet the requirements in AASB 9 and AASB 132 relating to financial guarantee contracts and are not accounted for as insurance contracts are accounted for in accordance with AASB 137.
- B78 Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with AASB 137.
43. EY recommend the Board clarify that a compensation for shortfalls in revenue from the users of the service concession asset should be recognised as a financial liability under AASB 9, as required under AASB 1059 paragraph 16(b).

Issue 4B – Clarify that the hybrid model could be applied when there is obligation to compensate for revenue shortfalls

44. EY also commented that from a strict reading of AASB 1059 paragraph 16(b) (quoted in paragraph 40), it may be interpreted that a grantor is required to recognise a financial liability equal to the value of the current replacement cost of the asset, when there is an obligation to pay for revenue shortfalls, rather than applying the hybrid model and recognising only the expected shortfalls as a financial liability and a GORTO liability for the balance.

Staff analysis

Issue 4A – Clarify whether compensation for revenue shortfalls should be recognised under AASB 9

45. A financial guarantee contract is defined under AASB 9 as “A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.” AASB 9 paragraph 2.1(e) states that “... if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or AASB 1023 *General Insurance Contracts* to such financial guarantee contracts (see paragraphs B2.5–B2.6). The issuer may make that election contract by contract, but the election for each contract is irrevocable.” [emphasis added]
46. Paragraphs B75–B76 of AASB 1059 refer to the policy choice that a grantor has, under AASB 9 paragraph 2.1(e), to continue to apply insurance accounting to account for **financial guarantees** if it has previously accounted for such guarantees as insurance contracts. Staff do not consider AASB 1059 permits insurance accounting to be applied for performance guarantees such as compensation of shortfalls in revenue from users of the service concession asset.
47. Staff are of the view that compensation of revenue shortfalls in the context of AASB 1059 paragraph 16(b) would not meet the definition of a financial guarantee under AASB 9 for the grantor where the grantor is guaranteeing payments to the operator to cover lower usage of service concession assets than expected. Therefore, insurance accounting would not be appropriate in measuring the liability to deliver cash to the operator in the case of such revenue

shortfalls. On the other hand, if the grantor guarantees to make payments to the operator in the event of users of the service concession assets defaulting on usage payments to the operator, then the grantor would assess whether it has a financial guarantee contract and would be eligible for continued insurance accounting if previously applied.

48. Staff observe that paragraph B75 of AASB 1059 clearly distinguishes performance guarantees from financial guarantees and that paragraphs B77 and B78 (quoted in paragraph 42) are sufficiently clear in addressing the accounting requirements for other forms of guarantees and commitments.
49. However, staff consider that AASB 1059 paragraph B76 could be amended to reiterate the policy choice described in paragraph 46 above – that permits a grantor to continue to apply insurance accounting – is limited to **financial guarantees** that meet the definition in AASB 9.

Issue 4B – Clarify whether to apply the hybrid model when there is obligation to compensate for revenue shortfalls

50. Staff are of the view that the existing wording of AASB 1059 paragraph 16(b) is sufficiently clear that the financial liability is in relation to the ‘the shortfall’ between amounts received by the operator from users of the service concession asset and any other specified or determinable amounts payable by the grantor, rather than the whole liability arising from receipt of a service concession asset. Therefore, staff do not consider paragraph 16(b) needs to be amended.

Staff recommendation

51. Staff recommend amending AASB 1059 paragraph B76 to clarify that the grantor’s policy choice to continue applying insurance accounting is limited to contracts that meet the definition of a financial guarantee under AASB 9, if they have previously been accounted for as insurance contracts.
52. If Board members agree with the staff recommendation, staff recommend amending paragraph B76 of AASB 1059 as follows (new text underlined):

B76 The grantor determines whether financial guarantees provided by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract. If so, the grantor applies AASB 7, AASB 9 and AASB 132 in accounting for the financial guarantee. Where the guarantee is regarded as an insurance contract, the grantor can elect to apply AASB 4 *Insurance Contracts* or AASB 1023 *General Insurance Contracts* instead if it has previously used accounting applicable to insurance contracts for such guarantees.

Questions to the Board:

Q7: Do Board members agree with the staff recommendation in paragraph 51 to amend paragraph B76 of AASB 1059 to clarify that the grantor’s policy choice to continue applying insurance accounting is limited to contracts that meet the definition of a financial guarantee under AASB 9, if they have previously been accounted for as insurance contracts?

Q8: Do Board members agree with the staff recommendation for revising the wording of paragraph B76 of AASB 1059?

Due process and next steps

53. If the Board agrees with the staff recommendations to amend AASB 1059, staff recommend issuing an amending Standard. Staff do not believe the proposed amendments need to be exposed for public comment.
54. The staff-recommended amendments seek to address respondents' comments on the FFR draft amending Standard. The suggested amendments clarify existing requirements in AASB 1059 and clarify the Board's decisions in the amendments proposed in the FFR draft amending Standard, rather than introducing new requirements. Therefore, staff do not consider another round of public consultation is necessary.
55. The table below provides a draft timeline for finalising the amending Standard.

Date	Task
7 October 2019	Circulate ballot draft of amending Standard to Board for voting out of session. Propose two weeks to vote until 21 October 2019.
24 October 2019	Final Standard issued

Question to the Board:

Q9: Do Board members agree with staff's proposed next steps and the timeline in paragraphs 53–55?

Appendix A: Suggested editorial amendments to the Implementation Guidance

A1. This Appendix analyses comments by respondents on the proposed editorial amendments to paragraphs IG10 and IG13 of the implementation guidance.

Issue 5: Suggested editorial amendments to paragraph IG10

A2. The Board proposed to amend the flowchart in paragraph IG10 to clarify the recognition and measurement of service concession asset at the April 2019 Board meeting. However, both EY and HoTARAC has provided comments for the Board to consider:

- EY commented that the flowchart provides guidance in respect of the recognition of a service concession asset, once it is determined that an arrangement falls into scope of AASB 1059 under paragraph 2 of the Standard. EY commented that the preamble of the flowchart can be amended to clearly explain the intention of the flowchart. EY also suggested that the penultimate box of the flowchart can be amended to say “The asset is a service concession asset recognised and measured under AASB 1059”; and
- HoTARAC commented that since an arrangement must first satisfy the criteria of a service concession arrangement in AASB 1059 paragraph 2 before the assets in the arrangement are assessed against the recognition criteria of service concession assets, the flowchart should include the requirements of paragraph 2.

Staff recommendation

A3. Staff note that there is another flowchart in AASB 1059, in paragraph IG2, that illustrates the requirements of paragraph 2. Therefore, staff do not believe it is necessary to replicate these requirements in the flowchart in paragraph IG10.

A4. Staff agree with EY that clarifying the preamble of the flowchart would clarify that the flowchart is to illustrate the recognition of a service concession asset after the grantor has determined that the transaction falls in the scope of AASB 1059 under paragraph 2. Staff do not believe the penultimate box needs to be amended as by this stage, it is clear that the service concession asset is to be measured in accordance with AASB 1059 as indicated in the last box.

A5. Staff therefore recommend amending the preamble of paragraph IG10 as follows (new text underlined and deleted text struck through):

IG10 The diagram below summarises the accounting recognition and measurement requirements for assets (other than goodwill) and service concession arrangements in accordance with subject to AASB 1059.

A6. The proposed amendments to the flowchart in paragraph IG10 are included in Agenda Paper 8.2.

Question to the Board:

Q10: Do Board members agree with the staff recommendation for revising the wording of the preamble of paragraph IG10 of AASB 1059?

Issue 6: Suggested editorial amendments to paragraph IG13

- A7. The FFR draft amending Standard included amendments to the Table in paragraph IG13 to align the wording used in paragraph 2 of AASB 1059 to reflect the requirement that the operator must be responsible for managing at least some of the public services provided through the asset, instead of the previous wording of being responsible for at least some of the management of the asset. However, EY commented that the second column of the second row of Table could cause confusion and recommend further amendments.
- A8. The proposed amendment in the FFR are as follows (new text underlined and deleted text struck through):

Features	Construction contract with service outsourcing contract ¹	Lease ² (grantor is lessor)	Service concession arrangement ³	Sale/Privatisation ⁴
Determining whether arrangement is within the scope of AASB 1059 (paragraphs 2, IG2)	<i>Conclusion</i> (based on analysis below) – Outside the scope of AASB 1059 and grantor controls the asset.	<i>Conclusion</i> (based on analysis below) – Depending on terms of arrangement, can be outside or within the scope of AASB 1059.	<i>Conclusion</i> (based on analysis below) – Within the scope of AASB 1059 and grantor controls the asset.	<i>Conclusion</i> (based on analysis below) – Outside the scope of AASB 1059 and grantor does not control the asset.
Operator provides public services related to the asset on behalf of the grantor and is responsible for at least some of the management of the asset <u>the management of at least some of the public services</u> (paragraph B10)?	Operator provides construction services, not public services . Operator provides management of asset public services and related services as predetermined by the grantor .	Operator involvement in the management of the asset <u>public services</u> and related services varies , depending on the lease terms (ie operator may have full involvement or be limited to facility management pre-determined by the grantor that is not a significant component of the public services provided by the asset).	Operator involved in management of service concession asset public services provided by the asset that is not predetermined by grantor (ie operator has discretion <u>as to</u> how the asset is managed the public services are provided and managed).	Operator does not provide public services on behalf of the grantor , despite any protective rights of the grantor.
...

Staff recommendation

- A9. Staff agree that the words “not public service” in the first sentence of the cell—the second column of the second row of Table, might cause confusion. Staff recommend amending in this cell as follows (new text underlined and deleted text struck through):

Features	Construction contract with service outsourcing contract ¹	Lease ² (grantor is lessor)	Service concession arrangement ³	Sale/Privatisation ⁴
Determining whether arrangement is within the scope of AASB 1059 (paragraphs 2, IG2)	<i>Conclusion</i> (based on analysis below) – Outside the scope of AASB 1059 and grantor controls the asset.	<i>Conclusion</i> (based on analysis below) – Depending on terms of arrangement, can be outside or within the scope of AASB 1059.	<i>Conclusion</i> (based on analysis below) – Within the scope of AASB 1059 and grantor controls the asset.	<i>Conclusion</i> (based on analysis below) – Outside the scope of AASB 1059 and grantor does not control the asset.

Features	Construction contract with service outsourcing contract ¹	Lease ² (grantor is lessor)	Service concession arrangement ³	Sale/Privatisation ⁴
Operator provides public services related to the asset on behalf of the grantor and is responsible for at least some of the management of the asset the management of at least some of the public services (paragraph B10)?	Operator provides construction services, not public services. Operator <u>acts as agent of the grantor in providing</u> provides management of asset public services and related services as predetermined by the grantor.	Operator involvement in the management of the asset public services and related services varies , depending on the lease terms (ie operator may have full involvement or be limited to facility management pre-determined by the grantor that is not a significant component of the public services provided by the asset).	Operator involved in management of service concession asset public services provided by the asset that is not predetermined by grantor (ie operator has discretion <u>as to</u> how the asset is managed the public services are provided and managed).	Operator does not provide public services on behalf of the grantor , despite any protective rights of the grantor.
...

Question to the Board:

Q11: Do Board members agree with the staff recommendation for revising the Table in paragraph IG13 of AASB 1059?

Appendix B: Other implementation issues

- B1. This Appendix summarises other implementation issues raised by respondents for which staff do not consider an amendment to AASB 1059 is required.

Issue 7: Challenge identifying those assets that would be classified as SCAs

- B2. As mentioned in Issue 1, the FFR draft proposed to include a new paragraph in AASB 16 to provide a practical expedient for grantors of service concession arrangements so that they would not need to apply AASB 16 for one year to assets that would be classified as service concession assets in accordance with AASB 1059.

- B3. The proposed paragraph AusC4.1 states:

AusC4.1 Notwithstanding paragraphs C3 and C4, a public sector entity is not required to apply this Standard to assets previously accounted for under AASB 117 that would be classified as service concession assets in accordance with AASB 1059 *Service Concession Arrangements: Grantors*. The entity shall continue to apply its existing accounting policy to these assets until AASB 1059 is applied. [emphasis added]

- B4. The proposed practical expedient is only applicable to arrangements that would be classified as service concession assets in accordance with AASB 1059. HoTARAC commented that to apply this practical expedient, entities would be required to have completed their scoping assessments of arrangements under AASB 1059 by 1 July 2019, despite the Standard having been deferred until annual reporting periods beginning on or after 1 July 2020. Given the complexity of the Standard, HoTARAC is of the view that it is unlikely that all public sector entities will have completed their scoping assessments by 1 July 2019.
- B5. HoTARAC recommends the Board clarify that the practical expedient can be applied on an asset-by-asset or arrangement-by-arrangement basis to allow grantors to apply the practical expedient as and when their scoping assessment for AASB 1059 is completed throughout 2019/20.

Staff comment

- B6. Staff note that grantors would need to assess whether (and if so, how) AASB 16 would apply to service concession assets, if the practical expedient was not applied. Staff consider that entities do not need to complete their AASB 1059 scoping assessment by 1 July 2019 in order to apply the practical expedient or consider applying AASB 16, but rather by the time entities need to finalise their 2019/20 financial statements. Staff do not consider any amendment is required for this issue.
- B7. Staff also note that the proposed paragraph AusC4.1 of AASB 16 does not preclude entities from applying the practical expedient on an asset-by-asset or arrangement-by-arrangement basis. However, that would not permit a grantor to apply AASB 16 to any service concession assets from a date other than 1 July 2019, if the practical expedient was not adopted for those assets after assessment by the grantor. That is, a grantor could not apply its existing accounting policy for part of 2019/20 and AASB 16 for the remainder of that year based on when the scoping assessment might be completed for particular assets. Staff do not consider any amendments to AASB 1059 are required.

Issue 8: Clarify how assets should be presented where the practical expedient is applied

B8. HoTARAC requests that the AASB clarify how assets to which the practical expedient is applied should be accounted for and presented in the financial year 2019/20. For example, clarify whether these assets are to be treated as a separate class of assets for the purposes of presentation and valuation.

Staff comment

B9. Staff note the proposed paragraph AusC4.1 of AASB 16 (quoted in paragraph B3) states that a grantor would continue to apply its existing accounting policy to assets, where the practical expedient is applied, until AASB 1059 is applied. Staff consider that 'existing accounting policy' would include the policies on the classification, presentation and measurement of these assets. Therefore, staff do not consider any further clarification is required.

B10. Staff observe that entities would still need to comply with the requirements in paragraphs 30–31 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to assess the possible impact that the application of AASB 1059 may have on the entity's financial statements in the period of initial application, even if the practical expedient has not been applied.

Question to the Board:

Q12: Do Board members agree that amendments to AASB 1059 are not required in respect of issues 7 and 8?