



Project:	Post-implementation Review of AASB 1059 <i>Service Concession Arrangements: Grantors</i>	Meeting:	AASB June 2023 (M196)
Topic:	Overview of comments received on ITC 49	Agenda Item:	5.1
Contact(s):	Patricia Au pau@asb.gov.au Jia Wei jwei@asb.gov.au Clark Anstis canstis@asb.gov.au	Date of this paper:	6 June 2023
		Project Priority:	Medium
		Decision-Making:	Medium
		Project Status:	Analysing ITC feedback

Objectives of this agenda item

- In respect of AASB 1059 *Service Concession Arrangements: Grantors*, the objectives of this agenda item are for the Board to:
 - note** the submission letters received on [ITC 49](#) *Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors* (Agenda Paper 5.4 in the supplementary folder);
 - decide** whether to undertake a standard-setting project to address AASB 1059 implementation issues (Question 1 below); and
 - if so, in respect of the scope and control criteria of AASB 1059:
 - consider** stakeholder comments and staff's preliminary views;
 - decide** whether to undertake work to explore alternative scope and control criteria that might be easier to apply to determine whether an arrangement is a service concession (SC) arrangement and whether the grantor has control of an SC asset; and
 - provide direction to staff** on the standard-setting work needed to address stakeholder comments, including **deciding** on whether to consult with stakeholders further before formulating staff recommendations on the scope and control criteria.
- Staff anticipate discussing the remaining stakeholder comments, including comments on the recognition and measurement requirements of AASB 1059, at a future meeting.

Papers for this agenda item

- There are three other papers for this agenda item:
 - Agenda Paper 5.2 – Analysis of stakeholder feedback relating to the scope and control criteria of AASB 1059;
 - Agenda Paper 5.3 – Staff's preliminary suggestions relating to the scope and control criteria of AASB 1059 – **this paper is to follow, but paper 5.2 can be read without it**; and
 - Agenda Paper 5.4 – ITC 49 submission letters [in supplementary folder].

Reasons for bringing this agenda item to the Board

4. AASB 1059 was issued in July 2017 and applies to annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.¹ The [Appendix](#) to this Cover Memo provides background information about the reasons why the Board issued AASB 1059 and a summary of the main requirements of the Standard.
5. In September 2022, the Board issued ITC 49 to obtain feedback from stakeholders on:
 - (a) whether they consider AASB 1059 continues to meet its objectives; and
 - (b) any implementation issues they have encountered in applying AASB 1059.
6. The Board issued ITC 49 about nine months earlier than originally scheduled after considering comments from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) and the Australasian Council of Auditors General (ACAG) indicating their preference for the Board to consider AASB 1059 implementation issues as soon as possible.
7. ITC 49 was issued with a 150-day comment period ending on 28 February 2023. The Board received six comment letters:
 - (a) S1–Gold Coast Hospital and Health Services (GCHHS) described the challenges it encountered with determining whether a hospital car park is considered to be providing a ‘public service’ and therefore should be within the scope of AASB 1059;
 - (b) S2–ACAG responded to all questions in ITC 49, including the General Matters for Comment. ACAG raised concerns about most aspects of AASB 1059;
 - (c) S3–PwC provided comments relating to the scope and control criteria of AASB 1059 and measurement of SC assets and subsequent measurement of a grant of a right to the operator (GORTO) liability;
 - (d) S4–SW Accountants & Advisors (SW) requests the Board to clarify the accounting treatment of guarantee payments from the grantor to the operator to cover a shortfall in revenue;
 - (e) S5–HoTARAC responded to all questions in ITC 49, including the General Matters for Comment. HoTARAC raised concerns about most aspects of AASB 1059; and
 - (f) S6–Deloitte did not specifically respond to the questions in ITC 49. They commented that applying the Standard required significant judgement and suggested the Board provide further guidance to assist the application of the Standard based on State government guidance. Additionally, they commented that any specific changes relating to measuring the fair values of SC assets should be made through AASB 13 *Fair Value Measurement*.
8. Staff held two virtual roundtable discussions to obtain stakeholders’ views on AASB 1059, as well as discussions with individual stakeholders. The agenda papers for this meeting refer specifically to matters raised in the comment letters – the views expressed in roundtables and stakeholder discussions were generally consistent with those in the comment letters.
9. At the June 2023 meeting, staff ask the Board to consider stakeholders’ feedback and decide whether to undertake a standard-setting project to address AASB 1059 implementation issues.

1 AASB 1059 initially had an application date of annual reporting periods beginning on or after 1 January 2019. In 2018, the AASB issued AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* to defer the application date by one year to provide stakeholders with more time to implement the Standard.

Overview of ITC responses

10. Other than the disclosure requirements of AASB 1059, respondents raised significant issues in applying most aspects of the Standard, including:
 - (a) determining which arrangements/assets should be within the scope of AASB 1059;
 - (b) measurement of SC assets; and
 - (c) recognition and measurement of liabilities associated with SC assets.

Feedback regarding the scope and control criteria

11. Four ITC respondents² and some roundtable participants commented that they have experienced significant challenges in determining which arrangements/assets should be within the scope of AASB 1059. Specifically, they commented that they have issues regarding each of the following conditions outlined in AASB 1059 paragraphs 2 and 5, which need to be met for an asset to be recognised as an SC asset under AASB 1059:
 - (a) the operator provides public services related to an SC asset on behalf of the grantor (AASB 1059 paragraph 2(a));
 - (b) the operator manages at least some of the public services under its own discretion, rather than at the direction of the grantor (AASB 1059 paragraph 2(b));
 - (c) the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them and at what price (AASB 1059 paragraph 5(a)); and
 - (d) the grantor controls any significant residual interest in the asset at the end of the term of the arrangement (AASB 1059 paragraph 5(b)).
12. Agenda Paper 5.2 analyses the stakeholders' feedback relating to the scope and control criteria in AASB 1059 and the staff's preliminary views. In Agenda Paper 5.2, staff ask the Board to provide direction to staff on any standard-setting work needed to address stakeholder comments on the scope and control criteria, if the current criteria in AASB 1059 paragraphs 2 and 5 are to be retained without significant changes to the concepts underlying those paragraphs.
13. One of the main preliminary views staff have formed in this Agenda Item is that staff think there is merit in exploring alternative scope and control criteria for determining whether an arrangement is an SC arrangement and whether a grantor controls an SC asset. Further input from stakeholders would be needed before formulating staff recommendations relating to the scope and control criteria. Agenda Paper 5.3 includes:
 - (a) staff's rationale for suggesting the Board consult with key stakeholders about exploring alternative scope and control criteria;
 - (b) an example of how the scope and control criteria might be modified based on the staff's preliminary views, to facilitate Board members' discussion; and
 - (c) draft questions that could be used in consulting with stakeholders relating to the staff's preliminary views and suggestions on the scope and control criteria of AASB 1059.
14. Agenda Paper 5.3 needs to be discussed at the June 2023 meeting only if the Board decides in Question 1 below to undertake a standard-setting project to address implementation issues.

2 S1–GCHHS, S2–ACAG, S3–PwC and S5–HoTARAC.

Feedback regarding the recognition and measurement of SC assets and related liabilities

15. Paragraphs A7–A13 in the [Appendix](#) to this Cover Memo provide a summary of the main recognition and measurement requirements in AASB 1059.
16. The main comments from stakeholders regarding the recognition and measurement requirements are related to:
 - (a) the mandatory use of the cost approach in AASB 13 *Fair Value Measurement* in initially and subsequently measuring SC assets resulted in anomalous outcomes, particularly in measuring a previously unrecognised internally generated intangible asset; and
 - (b) request for clarification or further guidance on:
 - (i) 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;
 - (ii) whether an SC asset under construction is required to be measured at capitalised costs or at fair value during the construction period;
 - (iii) the timing of reclassifying an existing asset of the grantor as an SC asset;
 - (iv) whether finance costs are required to be included in an asset's current replacement cost;
 - (v) the accounting treatment of minor capital additions to an SC asset;
 - (vi) 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;
 - (vii) 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;
 - (viii) 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;
 - (ix) the amortisation of the GORTO liability when a particular component of the asset is replaced during the concession period;
 - (x) whether the grantor has a financial liability if it acts as an agent to collect revenue from third parties for the operator; and
 - (xi) the accounting treatment for lifecycle costs paid to the operator to maintain the SC asset in a specified condition.

Does AASB 1059 continue to meet its objectives?

17. S2–ACAG, S5–HoTARAC (except for one jurisdiction) and S6–Deloitte commented that, generally, applying AASB 1059 has resulted in financial statements that are more useful to users. They generally agree with the grantor recognising SC assets³ and related liabilities; however, they qualified their support subject to the Board adequately addressing the issues raised in their submissions. The other three respondents did not comment on whether AASB 1059 continues to meet its objectives.

3 However, some ACAG and HoTARAC jurisdictions disagree with:

- (a) recognising internally generated intangible assets as SC assets; and
- (b) reclassifying existing assets of the grantor as SC assets, unless the operator is required or expected to build on or expand those assets as part of the SC arrangement.

18. One HoTARAC jurisdiction expressed a different view to other jurisdictions. They consider that:
 - (a) recognising arrangements involving the grantor granting the operator the right to charge users, and therefore forgoing revenue from providing the public service, artificially inflate the grantor's assets and liabilities and detracts from the economic substance of the transaction; and
 - (b) the benefits of applying AASB 1059 do not exceed the implementation and application costs; particularly when the Australian Bureau of Statistics (ABS) ignores or makes adjustments for GORTO assets and liabilities in their analysis, for example for the preparation of Government Finance Statistics.
19. Staff will consider the HoTARAC jurisdiction's view more closely in the future analysis of the GORTO liability requirements. In respect of the comment about the ABS ignoring or making adjustments to GORTO assets and liabilities, staff note that the ABS is the only user of public sector entity financial statements that has indicated that information about GORTO arrangements is not useful.
20. Overall, staff consider AASB 1059 remains appropriate regarding the requirement to recognise SC assets controlled by, and related liabilities incurred by, the reporting entity. However, staff agree with ITC respondents that certain concepts underpinning the Standard are not sufficiently clear. Staff consider that improvements to AASB 1059 could be made to clarify existing requirements that would assist in reducing the judgement required in applying the Standard. This would in turn reduce the costs and effort required to apply the Standard and result in a more consistent application across public sector entities.

Staff recommendation regarding the next step

21. For completeness, staff considered the following options regarding the next step following the post-implementation review (PIR) of a pronouncement:
 - (a) Option 1 – do nothing;
 - (b) Option 2 – undertake further research to determine whether the issues identified in a PIR are pervasive or to determine whether other national jurisdictions have encountered similar issues and how they have addressed them; and
 - (c) Option 3 – undertake a standard-setting project to consider whether modifications to the pronouncement are warranted.
22. Staff recommend Option 3, to undertake a standard-setting project. This is because:
 - (a) based on the comments received on ITC 49, there appear to be many aspects of the Standard for which the Board's clarification is sought. Therefore, Option 1 would be inappropriate; and
 - (b) other national jurisdictions would either be applying their own pronouncement or IPSAS 32 *Service Concession Arrangements: Grantor* (with or without jurisdictional modifications). Since the Board made several significant changes from IPSAS 32 in finalising AASB 1059, it is unlikely that other jurisdictions would have encountered the same application issues as Australian stakeholders. Therefore, Option 2 would also be inappropriate.⁴

4 New Zealand adopted IPSAS 32 in developing NZ [PBE IPSAS 32 Service Concession Arrangements: Grantors](#). Staff observed from the [Financial Statements of the Government of New Zealand for the year ended 30 June 2022](#), only a few arrangements are accounted for under PBE IPSAS 32. Those arrangements are Public Private Partnership (PPP) arrangements entered into by a public sector entity in accordance with the PPP policy set out by the New Zealand Infrastructure Commission. The SC assets associated with those

23. Staff acknowledge that, under the Board’s PIR process, a decision about whether and when to undertake standard-setting work on a Standard would usually be made after the Board has considered staff analysis of all stakeholder comments received in the PIR process. However, in this case, staff consider that bringing forward the decision about undertaking standard-setting work is justified because:
- (a) as mentioned in paragraph 6, two key stakeholder groups, HoTARAC and ACAG, have indicated their preference for the Board to consider AASB 1059 implementation issues as soon as possible; and
 - (b) as noted in Agenda Paper 5.2, staff agree with ITC respondents that there is significant diversity in views on whether an arrangement/asset is within the scope of AASB 1059 and it would be best to commence work to address those issues.

Question to Board members

Q1: Do Board members agree with the staff recommendation to undertake a standard-setting project to address implementation issues in respect of the scope and control criteria in AASB 1059?

arrangements are school buildings, motorways and prisons. The NZ SC arrangements do not involve GORTO liabilities for the grantor.

Appendix – Background to AASB 1059 and main requirements of the Standard.

A1. AASB 1059 prescribes the accounting for a service concession (SC) arrangement from the grantor’s perspective. The Standard is based on IPSAS 32 *Service Concession Arrangements: Grantor* and is informed by AASB Interpretation 12 *Service Concession Arrangements*, which sets out the accounting for the operator in an SC arrangement.

Why was AASB 1059 needed?

- A2. Public sector entities enter into SC arrangements as a means of developing and delivering infrastructure and other assets for public services. The public sector entity (the grantor) engages another entity (the operator) to construct or otherwise provide the underlying infrastructure and other assets through which the operator will provide public services on behalf of the grantor.⁵ In exchange for the assets and services, the grantor makes payments to the operator and/or grants the operator a right to charge users of the services (e.g. a right to collect tolls from road users).
- A3. AASB Interpretation 12, which incorporates Interpretation IFRIC 12 *Service Concession Arrangements* issued by the IASB, prescribes the accounting by operators for public-to-private SC arrangements. Interpretation 12 states that the operator acts as a service provider for the grantor and therefore does not control the asset it provides to the grantor. Therefore, the operator does not recognise an SC asset in its statement of financial position. The AASB decided that AASB Interpretation 12 did not determine the grantor’s accounting and therefore the accounting by grantors was a significant issue that needed to be addressed directly. In turn, AASB 1059 does not address the operator’s accounting.
- A4. Prior to issuing AASB 1059, there was no specific Australian Accounting Standard that prescribed the accounting for such arrangements from the grantor’s perspective. [Agenda Paper 7.5](#) for the December 2014 Board meeting (M142) provides an overview of the accounting treatment by the New South Wales and Victorian State Governments in recognising SC arrangements prior to AASB 1059. The relevant content of that Agenda Paper has been summarised in the tables below.

Social SC arrangements – where the State Government pays the operator over the period of the arrangement, subject to specified performance criteria being met. At the date of commitment to the principal provisions of the arrangement, these estimated periodic payments are allocated between a component related to the design and construction or upgrading of the SC asset and components related to the ongoing operation and maintenance of the asset.	
NSW	VIC
Generally, this is considered to be infrastructure purchased under a deferred payment arrangement (or effectively acquired under a finance lease) and is grantor-controlled from the beginning of the service period, though in some instances could be recognised earlier if the State is believed to have control during the construction phase.	During the period when the project is under construction (i.e. pre-commissioning), the State will only disclose the present value of future service payments as commitments in the notes to the financial statements, with no asset or liability being recognised. Once the project has been commissioned, the SC assets will be recognised on the balance sheet.

5 This type of arrangement may also be referred to as public-private partnerships (PPPs) or build-own-operate-transfer (BOOT) arrangements. However, not all PPPs or BOOT arrangements are SC arrangements within the scope of AASB 1059 – that would depend on whether the grantor controls the assets provided by the operator, in accordance with AASB 1059 paragraphs 5–6.

Such infrastructure is recognised as property, plant and equipment and depreciated over its useful life. The corresponding payment is recognised as a liability.	In addition, the capital component associated with these agreements will be accounted for as finance lease liabilities in accordance with the State's lease accounting policy, and the remaining operating components are accounted for as commitments for operating costs which are expensed in the comprehensive operating statement as they are incurred.
--	--

Economic SC arrangements – where the State Government grants to the operator, for a specified period of time, the right to collect fees from users of the SC asset, in return for which the operator constructs the asset and has the obligation to supply agreed-upon services, including the maintenance of the asset for the period of concession.	
NSW	VIC
<p>The primary factor in assessment for New South Wales is not which party is the legal owner, but which party has the risks and rewards of ownership.</p> <p>In most instances, the State would:</p> <ul style="list-style-type: none"> recognise an emerging asset progressively with a corresponding amount of revenue throughout the concession period; and at the end of the concession period, reclassify that emerging asset as its property, plant and equipment when the SC asset is handed back to the State Government. 	<p>During the period when the project is under construction (i.e. pre-commissioning), the State Government would disclose the present value of future service payments as commitments in the notes to the financial statements, with no asset or liability being recognised.</p> <p>Once the project has been commissioned, the State Government would:</p> <ul style="list-style-type: none"> recognise the SC assets as a finance leased asset (under AASB 117 <i>Leases</i>, which has now been superseded by AASB 16 <i>Leases</i>); recognise the capital component (for the construction of the SC asset) as finance lease liabilities in accordance with the State's lease accounting policy; and disclose the operating components (for the services provided by the operator to third party) as commitments for operating costs which are expensed as they are incurred.

- A5. Prior to AASB 1059, there was divergence in the accounting for SC arrangements, with some grantors recognising the assets provided by the operator, and related liabilities, in their statement of financial position while others did not. If grantors did not recognise the assets provided by the operator, the SC assets were not recognised by any entity since the operator did not recognise the assets either, in accordance with Interpretation 12.
- A6. SC arrangements are significant to the Australian economy in terms of their increasing use and the dollar value of the arrangements. To address their significance and the different practices in accounting for them, the AASB issued AASB 1059 to prescribe their accounting

treatment. The recognition of SC assets and related liabilities would assist users of financial statements to understand the resources and obligations of a grantor involved in the provision of public services (AASB 1059 paragraph BC5).

Main requirements in AASB 1059

Initial recognition

- A7. If the control criteria in AASB 1059 paragraphs 5 and 6 are met, AASB 1059 paragraphs 11 and 12 require that, on initial recognition, a grantor recognises:
- (a) an SC asset measured at fair value using the cost approach in AASB 13 *Fair Value Measurement* (i.e. measured at the asset's current replacement cost (CRC)); and
 - (b) a corresponding liability (subject to the adjustments described in paragraph A11 below).
- A8. The nature of the liability could be any of the following:
- (a) a financial liability – 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 an SC asset; or
 - (b) a grant of a right to the operator (GORTO) – by granting a right to the operator to earn revenue from third-party users of the SC asset. This is akin to unearned revenue for receiving the asset provided by the operator; or
 - (c) a combination of a financial liability and a GORTO liability (arising under “hybrid” arrangements).
- A9. The grantor is required to reclassify any existing assets that form part of the SC arrangement and remain controlled by the grantor as an SC asset and measure those assets at their current replacement cost.
- A10. Any internally generated intangible assets that do not qualify for recognition under AASB 138 *Intangible Assets* but meet the criteria in AASB 1059 are recognised as an SC asset and measured at current replacement cost.
- A11. The initial measurement of the liability associated with an SC arrangement should be measured at the same amount as the CRC of the SC asset, adjusted by:
- (a) excluding the amount for any existing asset of the grantor reclassified as an SC asset;
 - (b) excluding any other consideration from the grantor to the operator; and
 - (c) including any other consideration from the operator to the grantor.

Subsequent measurement

- A12. Subsequent measurement of the SC asset is in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138, as appropriate.
- A13. Subsequent measurement of any financial liability is in accordance with AASB 9 *Financial Instruments*. The grantor recognises income as the GORTO liability is reduced based on the economic substance of the arrangement.