

Explanatory Statement

Accounting Standard AASB 1059 ***Service Concession Arrangements: Grantors***

July 2017



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Main Features of the Standard

This Standard, AASB 1059 *Service Concession Arrangements: Grantors*, addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from the grantor's perspective. The Standard is based on International Public Sector Accounting Standard 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 a public-to-private service concession arrangement. For example, the principles in this Standard for recognition of a service concession asset are broadly consistent with AASB Interpretation 12.

The Standard applies to arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services. An arrangement within the scope of this Standard typically involves an operator constructing the assets used to provide the public service or upgrading the assets (for example, by increasing their capacity) and operating and maintaining the assets for a specified period of time. Such arrangements are often described as build-operate-transfer or rehabilitate-operate-transfer service concession arrangements or public-private partnerships (PPPs).

The Standard requires the grantor to:

- (a) recognise a service concession asset constructed, developed or acquired from a third party by the operator, including an upgrade to an existing asset of the grantor, when the grantor controls the asset. The grantor controls the asset if the grantor controls or regulates the services the operator must provide with the asset, to whom it must provide them and at what price, and if the grantor controls any significant residual interest in the asset at the end of the term of the arrangement;
- (b) reclassify an existing asset (including recognising previously unrecognised identifiable intangible assets and land under roads) as a service concession asset when it meets the criteria for recognition as a service concession asset;
- (c) initially measure a service concession asset constructed, developed or acquired by the operator or reclassified by the grantor at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*. Subsequent to the initial recognition or reclassification of the asset, the service concession asset is accounted for in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, as appropriate, except as specified in this Standard;
- (d) recognise a corresponding liability measured initially at the fair value (current replacement cost) of the service concession asset, adjusted for any other consideration between the grantor and the operator. The liability is recognised using either or both of the following models:
 - (i) the financial liability model – this model applies where the grantor has an obligation to deliver cash or another financial asset to the operator for the delivery of the service concession asset. This model requires the grantor to allocate the payments to the operator under the contract and account for them according to their substance as payments relating to the liability recognised or charges for services provided by the operator; and
 - (ii) the grant of a right to the operator model – this model applies where the grantor grants the operator the right to earn revenue from third-party users of the service concession asset. This model requires the grantor to recognise a liability reflecting the unearned portion of the revenue arising from the exchange of the assets between the grantor and the operator. The grantor recognises revenue over the period of the service concession arrangement according to the substance of the arrangement and reduces the liability as the revenue is recognised; and
- (e) disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of assets, liabilities, revenue and cash flows arising from service concession arrangements, by considering the disclosure of information such as the following:
 - (i) a description of the arrangements;
 - (ii) significant terms of the arrangements that may affect the amount, timing and uncertainty of future cash flows;
 - (iii) the nature and extent of the grantor's rights and obligations (such as rights to receive specified services and assets from the operator, and obligations to provide the operator with access to service concession assets or other revenue-generating assets) and renewal and termination options; and
 - (iv) changes in arrangements during the reporting period.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for periods beginning before 1 January 2019.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Standards Amended by the Standard

AASB 1059 makes amendments to three Australian Accounting Standards and one Interpretation, as set out in Appendix D to the Standard.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Consultation Prior to Issuing this Standard

This Standard is based on International Public Sector Accounting Standard IPSAS 32 *Service Concession Arrangements: Grantor* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) in April 2016.

Prior to the issue of this Standard, there was no specific Australian Accounting Standard that prescribed the accounting for service concession arrangements from the grantor's perspective.

In developing this Standard, a range of alternatives was considered including:

- (a) application of AASB Interpretation 12 *Service Concession Arrangements* by analogy;
- (b) review of feedback received with respect to the IPSASB's project on grantor accounting for service concession arrangements. This included the issuance of IPSASB consultation documents in Australia as Invitation to Comment ITC 16 *Request for Comment on IPSASB Consultation Paper Accounting and Financial Reporting for Service Concession Arrangements* (April 2008) and Exposure Draft ED 194 *Request for Comment on IPSASB Exposure Draft Service Concession Arrangements: Grantor* (April 2010); and
- (c) proposals of the AASB set out in Exposure Draft ED 261 *Service Concession Arrangements: Grantor* and additional public versions (described below in more detail)

The Board issued Exposure Draft ED 261 in May 2015. The Board took into account its policy of making Australian Accounting Standards with a view to requiring like transactions and events to be accounted for in a like manner by all types of entities, referred to as 'transaction neutrality', in restricting the scope of ED 261 to a grantor that is a public sector entity. The Board noted that it is highly unlikely that a service concession arrangement would involve a grantor that is a private sector entity. Consequently, only in rare instances would a private sector grantor require specific guidance on the accounting for a service concession arrangement.

The Board conducted extensive outreach on the proposals in ED 261, including roundtable discussions in Melbourne, Brisbane and Sydney, field tests in a number of Australian jurisdictions and other targeted outreach.

The Board received ten comment letters in response to ED 261. All respondents were supportive of the proposals set out in ED 261 on the basis that the proposals would provide a consistent approach to the accounting for service concession arrangements from a public sector grantor perspective. However, respondents requested additional guidance and examples on the concept of control, fair value measurement of service concession assets and liabilities, and accounting for the arrangements when transitioning to the Standard.

As the Board considered a broad range of issues in developing this Standard following the ED 261 exposure process, numerous issues papers and draft wording for paragraphs of the Standard were published with Board agenda papers. This gave constituents the opportunity to follow the debate and to provide comments on the issues and drafting contemporaneously.

In February 2017, the Board also issued a Fatal-Flaw Review version of the Standard for public comment. Submissions were received from seven constituents. The majority of the respondents were supportive of the Board's approach in the

Fatal-Flaw Review version. However, some respondents raised issues, which were considered in the March and May 2017 Board meetings. These issues were addressed through additional guidance included with the Standard.

The proposed requirements were then finalised in June 2017 in the form of a Pre-Ballot Draft of the Standard. This version, which typically is distributed only to Board members, was also circulated to the respondents to the Fatal-Flaw Review version that had provided substantive comments. Further comments were received from those respondents and were considered by the Board in finalising the Standard.

The Board has followed a RIS-like due process in developing this Standard, but is not required to prepare a Regulatory Impact Statement because this Standard applies only to public sector entities.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 1059 *Service Concession Arrangements: Grantors*

Overview of the Accounting Standard

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- (b) reclassify an existing asset (including recognising previously unrecognised identifiable intangible assets and land under roads) as a service concession asset when it meets the criteria for recognition as a service concession asset;
- (c) initially measure a service concession asset constructed, developed or acquired by the operator or reclassified by the grantor at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*. Subsequent to the initial recognition or reclassification of the asset, the service concession asset is accounted for in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, as appropriate, except as specified in this Standard;
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 - (ii) the grant of a right to the operator model – this model applies where the grantor grants the operator the right to earn revenue from third-party users of the service concession asset. This model requires the grantor to recognise a liability reflecting the unearned portion of the revenue arising from the exchange of the assets between the grantor and the operator. The grantor recognises revenue over the period of the service concession arrangement according to the substance of the arrangement and reduces the liability as the revenue is recognised; and
- (e) disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of assets, liabilities, revenue and cash flows arising from service concession arrangements, by considering the disclosure of information such as the following:
 - (i) a description of the arrangements;
 - (ii) significant terms of the arrangements that may affect the amount, timing and uncertainty of future cash flows;

- (iii) the nature and extent of the grantor's rights and obligations (such as rights to receive specified services and assets from the operator, and obligations to provide the operator with access to service concession assets or other revenue-generating assets) and renewal and termination options; and
- (iv) changes in arrangements during the reporting period.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.