

# **Post-implementation Review of AASB 1059 *Service Concession Arrangements: Grantors***

Comments to the AASB by 28 February 2023



**Australian Government**

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**Australian Accounting  
Standards Board**

## **How to Comment on this AASB Invitation to Comment**

The AASB is seeking comment by 28 February 2023.

### **Formal Submissions**

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website ([www.aasb.gov.au/current-projects/open-for-comment](http://www.aasb.gov.au/current-projects/open-for-comment)) as a PDF document and, if possible, a Word document (for internal use only).

### **Other Feedback**

Other feedback is welcomed and may be provided via the following methods:

E-mail: [standard@aaasb.gov.au](mailto:standard@aaasb.gov.au)  
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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# AASB REQUEST FOR COMMENTS

## Introduction

The Australian Accounting Standards Board (AASB) is undertaking a post-implementation review (PIR) of AASB 1059 *Service Concession Arrangements: Grantors*. The objective of AASB 1059 is to prescribe the accounting for a service concession arrangement by a grantor that is a public sector entity.

This Invitation to Comment (ITC) aims to seek feedback from stakeholders that will assist the AASB in determining whether AASB 1059 continues to meet its objective, and the pronouncement remains appropriate.

The *AASB Due Process Framework for Setting Standards* (paragraph 7.15.2) sets out that a PIR involves:

- (a) review of research that is relevant to the subject matter under review, including research by AASB staff and academics;
- (b) collation of issues received by the AASB prior to the commencement of the PIR;
- (c) stakeholder consultation to seek feedback on implementation issues and other views on the pronouncement;
- (d) consideration of the feedback received by the AASB;
- (e) publication of the findings of the PIR; and
- (f) consideration of any recommendations for changing the pronouncement, which would require the AASB to undertake a separate standard-setting consultation process.

A PIR is not intended to reconsider the underlying pronouncement in its entirety. Instead, it acknowledges that the consultation and due process during the development of a pronouncement are not a substitute for the practical application of the requirements in the issued pronouncement. For example, when the requirements in the issued pronouncement are applied in practice, unexpected issues may arise, such as a pronouncement being more difficult or costly to apply than what was expected. There might also be situations where a pronouncement unintentionally results in divergence in practice. This divergence could be due to differing judgements in applying the requirements, unclear requirements, or new or emerging transactions that were not contemplated when a pronouncement was developed.

The PIR process comprises three broad phases: planning, outreach, and feedback and next steps.

## Planning phase

The planning phase establishes the scope of matters to be considered by the PIR. These matters are identified through a review of project documentation published when the pronouncement was issued, a review of academic research and other literature, targeted outreach with selected stakeholders and consideration of matters raised by stakeholders during implementation of the pronouncement and subsequently.

## Outreach phase

During the outreach phase, the AASB will actively engage with stakeholders to seek feedback on the matters in this ITC. This outreach may include meetings with financial statement users, preparers, regulators, professional service firms, professional bodies and academics, and formal written responses from stakeholders.

## Feedback and next steps phase

The AASB considers all feedback received and prepares a feedback statement after the formal PIR consultation process. After considering feedback received during the consultation process, the AASB may decide that:

- no action is required;
- additional educational material is needed; or
- standard-setting is required.

Where additional educational material or standard-setting is warranted, this would be addressed under a separate AASB project.

## Background to AASB 1059

AASB 1059 was issued in July 2017 and applies to annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.<sup>1</sup>

### Why was AASB 1059 needed?

Public sector entities enter into service concession 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.<sup>2</sup> 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).

AASB Interpretation 12 *Service Concession Arrangements*, which incorporates Interpretation IFRIC 12 *Service Concession Arrangements* issued by the IASB, prescribes the accounting by operators for public-to-private service concession 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 a service concession 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.

Prior to issuing AASB 1059, there was no specific Australian Accounting Standard that prescribed the accounting for such arrangements from the grantor's perspective. This resulted in divergence in the accounting for such 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 service concession assets were not recognised by any entity since the operator did not

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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 for implementing the Standard.

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

recognise the assets either, in accordance with Interpretation 12. AASB 1059 addressed this issue.

Service concession 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 service concession 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 findings from the planning phase**

Feedback from stakeholders during the planning phase commented that, in some arrangements, determining whether an arrangement is within the scope of AASB 1059 is challenging as it involves significant judgement. Stakeholders also commented that applying the current requirements in the scope paragraphs in the Standard has resulted in some PPP arrangements with similar features to service concession arrangements being scoped out of AASB 1059 and accounted for differently.

In addition, stakeholders have commented that, in some situations, the measurement requirements of AASB 1059 have resulted in anomalous financial outcomes. The main findings in the planning phase are summarised in Topics 1 to 4 below.

### **We need your feedback**

Comments are invited about your experience in the accounting treatment of service concession arrangements from the grantor's perspective on matters considered in this ITC by 28 February 2023. Stakeholder feedback plays an important role in the AASB's standard-setting process. The AASB regards supportive and non-supportive comments as essential to a review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale, are supported by evidence and, where applicable, provide a suggestion for an alternative approach or additional support the AASB could consider providing to stakeholders. Respondents need not answer all the questions. When answering the questions, respondents are asked to consider the effect of the requirements on:

- (a) the quality and consistency of financial statements and whether they provide relevant and reliable information about an entity's financial position and performance;
- (b) comparability, both from period to period for an entity and between entities; and
- (c) the costs to users and preparers of financial information.

### **Structure of this Invitation to Comment**

This document includes 24 questions for respondents and is structured as follows:

[Topic 1](#): Public service

[Topic 2](#): Grantor's control of the service concession asset

[Topic 3](#): Public sector operator

[Topic 4](#): Recognition and measurement of service concession assets and related liabilities

- [Topic 4A](#): Recognition and measurement of service concession assets
- [Topic 4B](#): Recognition and measurement of liabilities in service concession arrangements

[Topic 5](#): Other matters

[AASB General Matters for Comment](#).

## **Topic 1: Public service**

### **AASB 1059 requirements**

AASB 1059 paragraph 2 states that for an arrangement to be within the scope of AASB 1059 and accounted for as a service concession arrangement, the arrangement must involve an operator:

- (a) providing public services related to a service concession asset on behalf of a grantor; and
- (b) managing at least some of those services under its own discretion, rather than at the direction of the grantor.

### **What we have heard so far**

Some stakeholders have commented that:

- (a) determining whether an arrangement is within the scope of AASB 1059 involves significant judgement and can be challenging;
- (b) it is unclear which services are considered ‘public services’ in order to determine whether an arrangement is within the scope of AASB 1059, particularly when an arrangement might also provide some commercial services;
- (c) it is sometimes difficult to determine whether an entity is providing services ‘on behalf of the grantor’. For example, if enabling legislation permits a public sector entity to hold an asset but prohibits it from using the asset to provide services in its own right, the entity would need to contract another party for the provision of services. In this situation, is the party that is providing the services using the asset considered to be providing services ‘on behalf of the grantor’? Some stakeholders query whether the requirement to provide services on behalf of the grantor is necessary;
- (d) there are instances where multiple entities are involved with the delivery of the public services with varying degrees of responsibilities, in which case it may be unclear which entity is the grantor, or the operator, of the arrangement and whether the provision of services is considered to be ‘on behalf of the grantor’;
- (e) more guidance is needed to determine whether the operator is managing at least some of the services at its own discretion. For example, is an operator managing railway workers’ rosters considered to be “managing some of the public services” when the operator has no control over the timing of the railway services?; and
- (f) it is unclear whether an arrangement with a private sector entity to manage an existing local government facility (e.g. an aquatic centre, recreational centre or landfill site) for a short period (e.g. 2 years), where the local government entity sets the prices to be charged to users, should be considered a service concession arrangement.

In respect of secondary assets – an asset used or mainly used to complement the primary asset through which the public services are principally provided – some stakeholders commented that:

- (a) more guidance is needed to determine whether a secondary asset is “largely providing public services” for the purpose of determining whether it should be accounted for under AASB 1059; and
- (b) it is unclear whether a secondary asset should be recognised as a service concession asset under AASB 1059 where:
  - (i) the primary asset is controlled by a different entity;

- (ii) the provision of the secondary asset is not part of the same arrangement as the provision of the primary asset; or
- (iii) the secondary asset is constructed some time after the primary asset – AASB 1059 paragraph B7 does not specify the period between the construction of the primary asset and the secondary asset that would affect whether the secondary asset is considered to be part of the arrangement for the primary asset.

### **The AASB’s previous considerations and conclusions**

The AASB proposed a definition of the term ‘public service’ in its Exposure Draft ED 261 *Service Concession Arrangements: Grantors* (May 2015). Although respondents to ED 261 supported the inclusion of a ‘public service’ definition, they commented that the proposed definition was unclear. The AASB concluded that any definition of ‘public service’ would result in similar interpretative issues as those raised by those respondents.

Consequently, the AASB decided that, instead of providing a definition, the Standard should include guidance in the form of indicators and examples to demonstrate the existence of public services for assessing whether an arrangement is within the scope of the Standard (as outlined below). This approach is consistent with IPSAS 32 *Service Concession Arrangements – Grantor* and AASB Interpretation 12, which do not contain a ‘public services’ definition (AASB 1059, paragraph BC18).

In lieu of a ‘public service’ definition, the AASB provided guidance on the following:

- (a) characteristics of the provision of public services by considering:
  - (i) the characteristics of the services provided by the asset, that is:
    - the services provided by the asset are necessary or essential to the general public and are generally expected to be provided by a public sector entity in accordance with government policy or regulation; and
    - the services are accessible to the public, even if it is a subset of the community that uses the services (paragraph B6);
  - (ii) the services provided by the primary asset and the secondary asset:
    - where an arrangement provides public services principally through the primary asset, and a secondary asset is used or is mainly used to complement the primary asset, the secondary asset would be regarded as providing public services as well. This is on the proviso that secondary assets are constructed as part of the primary asset service concession arrangement (paragraph B7);
    - however, where the secondary asset is constructed after the construction of the primary asset, other factors need to be considered as to whether the secondary asset is regarded as an asset that provides public services and is within the scope of AASB 1059. The factors to consider for the secondary asset include whether the asset is largely of a commercial nature and whether the construction party is different from the constructor of the primary service concession asset (paragraph B7);
  - (iii) where the services provided by the asset are used wholly internally by a public sector entity for the purpose of assisting the entity to deliver public services, but managed by an external party, the arrangement is likely to be an outsourcing arrangement or a lease and therefore outside the scope of the Standard (paragraph B8); and



- (b) the operator's involvement in managing the provision of public services. For an arrangement to be within the scope of the Standard, the operator must be responsible for providing public services through the 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. An example of a factor to consider is the operator managing some of the operational services (i.e. day-to-day activities) of the asset at the operator's discretion. Operational services in the form of maintenance services such as cleaning, building maintenance and security are generally regarded as relatively insignificant to the services provided by the asset. Such maintenance services would generally be considered to be an outsourcing arrangement (paragraph B10).

The Implementation Guidance section of the Standard provides additional guidance in the form of:

- (a) Example 1: Limited operator services – illustrates the operator being responsible for cleaning and security services that does not constitute management of at least some of the public services provided by the asset, with the conclusion that the arrangement is therefore outside the scope of the Standard (paragraphs IG4-IG5).
- (b) Example 2(a): Facility maintenance at the discretion of the operator – illustrates the operator, in addition to providing cleaning and security services, is also responsible for the maintenance of school facilities to a specified condition at the operator's discretion. The facility maintenance does not represent a significant component of the public services provided by the asset and represents an outsourced service to the grantor and the arrangement is therefore outside the scope of the Standard (paragraphs IG6-IG7).
- (c) Example 2(b): Operator has management responsibilities – illustrates the operator is responsible for determining the operational services (i.e. day-to-day activities) of how many staff are required and facilities maintenance by providing upgrades and maintaining the asset to a specified condition. The operator has discretion as to when and how it carries out these responsibilities. The operator therefore accesses the asset to provide public services and is responsible for at least some of the management of the asset's services. As such, the arrangement is within the scope of the Standard.

### **Questions for respondents**

1. Do you have comments regarding the application of the following requirements of AASB 1059:
  - (a) the use of the term 'public service';
  - (b) the operator's involvement in providing public services on behalf of the grantor;
  - (c) the operator managing at least some of the public services under its own discretion; and
  - (d) the approach to secondary assets?

If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

2. Do you have comments regarding the characteristics of an arrangement that would distinguish it as a service concession arrangement from other arrangements such as a privatisation or outsourcing arrangement, or a lease? If so, please provide your views on those characteristics.

## **Topic 2: Grantor's control of the asset**

### **AASB 1059 requirements**

For a grantor to recognise an asset as a service concession asset, the grantor must control the asset. AASB 1059, paragraph 5, states that 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
- (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.

### **What we have heard so far**

Some stakeholders have commented that too much judgement is involved in determining whether a grantor controls a service concession asset. They requested more guidance to assist in identifying how much 'control' the grantor needs to have over the services and/or pricing of the services to determine whether an arrangement is within the scope of AASB 1059.

Some stakeholders also commented that it may be difficult to determine whether the grantor has control of any significant residual interest in the asset at the end of the term of the arrangement. They commented that:

- (a) it is unclear what quantitative threshold would represent a 'significant' residual interest in the asset;
- (b) it can be challenging to assess the value of the residual interest when the asset is subject to significant replacement of major components over the term of the arrangement;
- (c) it is unclear whether the assessment of any significant residual interest in the asset at the end of the arrangement should be based on the fair value of the original service concession asset (of which major components might no longer exist at the end of the arrangement) or the fair value of the asset as at the end of the arrangement (which could include replacement components); and
- (d) it may be difficult to assess whether the grantor controls a significant residual interest in the asset where the arrangement has an option for the operator to extend the concession term at the end of the initial arrangement.

### **The AASB's previous considerations and conclusions**

#### ***Grantor controls or regulates the services and prices***

When developing the Standard, the AASB noted that the control concept in AASB 1059 is consistent with the control concept in AASB Interpretation 12 and IPSAS 32 and that a broader concept of control currently applies in other Accounting Standards (AASB 1059, paragraph BC28). The AASB decided that the Standard should provide guidance by outlining the principles of the control concept along with scenarios and examples that illustrate this concept.

Consequently, the AASB provided guidance on assessing whether the grantor controls the asset by:

- (a) outlining various aspects of control of a service concession asset:
  - (i) the fundamental principle of control is the ability of the grantor to exclude or regulate others from accessing the benefits of an asset (paragraph B16);

- (ii) where the asset is operating in an environment regulated by a third party, the grantor may not need to have explicit control over the services and/or pricing of the services to have control of the service concession asset (paragraph B19); and
  - (iv) the grantor must control or regulate all of these three factors associated with the public services: what services the asset must provide, to whom the services are to be provided and at what price; and
- (b) examining scenarios in which the grantor controls the asset, including the following:
- (i) when the grantor controls the price of the services to be provided by the asset. This includes when the service concession contract may set the initial prices to be levied by the operator and regulate price revisions over the period of the service concession arrangement; and
  - (ii) where the asset is operating in a regulated environment:
    - when the price of the services is regulated by a third-party regulator (e.g. by a capping mechanism), the price is regarded as controlled by the grantor on the basis that the regulation removes the ability of the operator to determine the price. Conversely, if the operator is able to determine to whom the services are provided, but is subject to the grantor’s control over what services may be provided and the pricing, the grantor does not control the asset (paragraph B20);
    - the regulation must be substantive, as non-substantive features that apply only in remote circumstances are to be ignored (paragraph B24); and
    - if the regulator regulates the pricing or services to be provided by the asset, the grantor need not control or direct the activities of the regulator for the grantor to have control of the asset (paragraph B21).

In addition, the Implementation Guidance section of the Standard provides additional guidance in an example where the hospital service concession asset is partly regulated and partly unregulated by the grantor (Example 4, paragraphs IG16-IG23).

***Grantor controls any significant residual interest in the asset***

The AASB provided guidance in AASB 1059 paragraph B33 on this principle as follows:

“ ... 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 (e.g. 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.”

The AASB also provided guidance in the Standard that a change in the grantor’s control of the asset may arise from changes in the terms of the service concession contract or changes in third-party regulation of the price and/or services (paragraph B30). Where there is a change, the grantor assesses whether the asset is still within the scope of the Standard (paragraph B31).

### Questions for respondents

3. Do you have comments regarding the application of the following requirements in AASB 1059 paragraph 5:
- (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
  - (b) the grantor controls any significant residual interest in the asset at the end of the term of the arrangement?

If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

4. An arrangement is within the scope of AASB 1059 for recognition as a service concession arrangement if all of the following conditions are satisfied:
- (a) the operator provides public services related to a service concession asset on behalf of the grantor;
  - (b) the operator manages at least some of the public services under its own discretion;
  - (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; and
  - (d) the grantor controls any significant residual interest in the asset at the end of the term of the arrangement. This includes the grantor having substantive rights to prevent the operator from selling or pledging the asset during the service concession arrangement.

Do you consider it appropriate for an arrangement to be accounted for under AASB 1059 only when all of the above conditions are satisfied? Please provide reasons to support your view.

5. In addition to the conditions in AASB 1059 paragraphs 2 and 5 (as set out in Question 4), are there other factors that you consider would assist in determining whether an arrangement is within the scope of AASB 1059? If so, please provide details of those factors and explain why you think they would be useful.

## **Topic 3: Public sector operator**

### **AASB 1059 requirements and the AASB's previous considerations and conclusions**

As stated in AASB 1059 paragraph B2, in many jurisdictions, governments have introduced contractual service arrangements to attract private sector participation in the development, financing, operation and maintenance of infrastructure and other assets used to provide public services. Such arrangements are often described as PPP.

However, the scope of AASB 1059 does not explicitly state whether the operator should be a public or private sector entity (paragraph BC129). This is because the sector of the operator should not affect the accounting by the grantor for its service concession arrangements. Therefore, the AASB did not limit the scope of AASB 1059 to arrangements where the operator is a private sector entity.

### **What we have heard so far**

Some stakeholders have commented there are many “public-to-public” service concession arrangements, which involve an operator that is a public sector entity. These arrangements are within the scope of AASB 1059 since the Standard does not exclude arrangements where the operator is a public sector entity. Many such public-to-public arrangements are within the same department or jurisdiction. Some stakeholders have suggested that the benefits of requiring intra-group transactions to be accounted for under AASB 1059 would not outweigh the costs of that accounting when it is to be reversed on consolidation for the controlling entity or the whole of government financial statements.

### **Question for respondents**

6. Do you have comments regarding a public sector entity applying AASB 1059 as the grantor when the operator is another public sector entity? If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting. If you propose excluding public-to-public arrangements from the scope of AASB 1059, what is the rationale for your view?

## **Topic 4: Recognition and measurement of service concession assets and related liabilities**

### **AASB 1059 requirements**

AASB 1059 requires the grantor to initially recognise:

- (a) a service concession asset at current replacement cost (CRC) in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement* (paragraph 7); and
- (b) a liability measured at the same amount as the service concession asset, adjusted by the amount of any other consideration (e.g. the transfer of an existing asset) between the grantor and the operator (paragraphs 11 and 12). Where the grantor compensates the operator by:
  - (i) making payments to the operator – the liability is accounted for using the financial liability model;
  - (ii) other means, such as granting the operator the right to earn revenue from third-party users of the service concession asset or access to another revenue-generating asset for the operator’s use – the liability is accounted for using the grant of a right to the operator (GORTO) model (paragraph 14); or
  - (iii) partly by incurring a financial liability and partly by the grant of a right to the operator – each part of the total liability in such a hybrid arrangement is accounted for separately (paragraph 24). In a hybrid arrangement:
    - the financial liability part is measured first, using the contractually specified interest rate (if practicable) or else another appropriate rate (paragraphs 25 and B64). AASB 9 *Financial Instruments* then applies to the recognised financial liability (paragraph 17); and
    - the remainder of the total liability is allocated to the GORTO part (paragraph 25).

AASB 1059 requires the grantor to subsequently:

- (a) measure a service concession asset in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Asset*, as appropriate, using the cost approach to fair value in AASB 13 (paragraphs B58 and B59);
- (b) measure any financial liability in accordance with AASB 9; and
- (c) recognise revenue and reduce the GORTO liability based on the economic substance of the arrangement (paragraph 22).

### **The AASB’s previous considerations and conclusions**

The AASB considered, at great length, the measurement of service concession assets and related liabilities and decided to include the following requirements in the Standard:

- (a) measuring a service concession asset initially at CRC in accordance with the cost approach to fair value in AASB 13 on the basis that:
  - (i) the cost approach reflects the amount required to currently replace the service capacity of an asset (paragraph BC62);

- (ii) a public sector entity uses a service concession asset's capacity or service potential to provide goods and services to achieve public service objectives and would replace the asset irrespective of whether the replacement cost will be recovered by the expected cash flows that the asset may generate (paragraph BC63). The AASB noted this rationale also applies to intangible service concession assets. The AASB decided that the measurement of the asset at initial recognition should not be affected by whether the service concession asset is a tangible or intangible asset (paragraph BC69(b)); and
- (iii) the service potential of identical service concession assets under the financial liability model and the GORTO model is the same from the grantor's perspective, as both assets will provide the same utility to the public and should therefore be measured consistently (paragraph BC64).

The AASB also considered other techniques for measuring an asset's fair value – the market approach and the income approach – but concluded that CRC is the most appropriate technique for measuring the fair value of a service concession asset (paragraphs BC54–BC61 and BC66); and

- (b) measuring the associated liability initially at the same amount as the service concession asset CRC, adjusted by the amount of any other consideration between the grantor and the operator (paragraphs 12, BC75 and BC92).

#### **Topic 4A: Recognition and measurement of service concession assets**

##### **What we have heard so far**

In respect of the recognition and measurement of service concession assets, some stakeholders have commented that:

- (a) other valuation techniques in AASB 13 should be permitted to be applied in measuring a service concession asset, given that AASB 13 paragraph 61 states that an entity “shall 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”. In addition, applying the market approach seems to be more appropriate than applying the cost approach in measuring the fair value of land included in a service concession arrangement;
- (b) anomalous outcomes could arise when measuring the fair value of a previously unrecognised internally generated intangible asset at CRC, compared with the income approach. They question the appropriateness of recognising assets that had not previously met the recognition criteria in AASB 138 and measuring them at fair value when fair value would not otherwise be permitted under AASB 138 because an active market is unlikely to exist for those intangible assets;
- (c) because the operator is responsible for the construction and any upgrades, replacement or renewal of the service concession asset, in some cases the grantor has limited access to information about the asset. This creates challenges for initial and subsequent measurement, depreciation calculations and derecognition of components of the service concession asset when relevant;
- (d) it is unclear whether service concession assets under construction should be measured at cost or at fair value;
- (e) it is unclear whether borrowing costs or implied funding costs are required to be included in the current replacement cost of a service concession asset. The non-mandatory Illustrative Examples that accompany AASB 1059 illustrate how implied

funding costs are calculated but there appear to be inconsistencies across Examples 6, 7 and 8;

- (f) it is unclear whether, after initially recognising a service concession asset, any improvements to that asset should be recognised and measured in accordance with:
- the subsequent measurement requirements in AASB 116 or AASB 138 as additions to the service concession asset; or
  - AASB 1059 paragraph B48, as a separate service concession asset with a corresponding liability; and
- (g) AASB 1059 does not specify how contract modifications should be accounted for, such as when the operator provides an additional asset or service or carries out a major upgrade or replacement that was not part of the original arrangement.

### Questions for respondents

7. Do you have any comments regarding:
- (a) initially measuring a service concession asset at its current replacement cost using the cost approach in AASB 13; and
- (b) subsequently measuring the service concession asset at current replacement cost under the revaluation model in AASB 116 or AASB 138 (if the revaluation model is adopted by the entity)?

Where you do have comments on (a) and/or (b), please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

8. Do you have any comments regarding the recognition and measurement of a service concession asset under construction? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.
9. Do you have any comments regarding the calculation and treatment of borrowing costs or implied funding costs in measuring the current replacement cost of a service concession asset? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.
10. Do you have any comments regarding the recognition and measurement of upgrades or replacement of major components of a service concession asset? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.
11. Do you have any comments regarding how contract modifications should be accounted for under AASB 1059? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.
12. Are there any other comments regarding the AASB 1059 recognition and measurement requirements for service concession assets that you think the AASB should consider?



## **Topic 4B: Recognition and measurement of liabilities in service concession arrangements**

### **What we have heard so far**

Some stakeholders have commented that there are challenges in measuring financial liabilities in service concession arrangements involving variable or contingent consideration or minimum 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. In such a situation, it is unclear whether the grantor is required to recognise:

- (a) a financial liability for the present value of the minimum guaranteed amounts over the term of the arrangement; or
- (b) a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* for the expected shortfalls in the revenue received by the operator from the users.

The GORTO liability is required to be amortised according to the ‘economic substance of the arrangement’. Some stakeholders commented that it is unclear whether the economic substance of the arrangement refers to:

- (a) how access to the service concession asset is provided to the operator over the arrangement term, as in AASB 1059 paragraph B71. In this case, the GORTO liability would be amortised on a straight-line basis when the access to the asset is provided uniformly over the arrangement term; or
- (b) the basis on which the operator can charge users of the service concession asset, which might not be uniform over the arrangement term, thereby making the use of a straight-line amortisation of the GORTO liability inappropriate.

Some stakeholders also commented that they have experienced anomalous outcomes when applying the requirements in paragraphs 11 and 12 of AASB 1059 in initially measuring a partly completed service concession asset. Stakeholders provided the following examples:

- (a) for an arrangement involving a financial liability, there could be situations where the grantor’s contractual obligations measured under AASB 9 are greater than the CRC of the partly completed asset, resulting in a negative impact on the statement of financial position in the periods when the asset is under construction; and
- (b) AASB 1059 does not specify whether (and if so, how) the liability is required to be adjusted when the asset construction is completed to reflect the same amount as the CRC of the completed asset. For an arrangement involving a GORTO liability, if the GORTO liability is not adjusted, the subsequent revenue recognition (and reduction of the GORTO liability) is likely to be significantly lower than the depreciation of the asset, resulting in an ongoing negative impact on the statement of profit or loss.

### **Questions for respondents**

13. Do you have comments regarding the application of the requirements in paragraphs 11 and 12 of AASB 1059 to initially measure the liability at the same amount as the service concession asset, subject to certain adjustments? If so, please provide your views on those requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.
14. In addition, do you have comments regarding the application of AASB 1059 requirements to initially recognise a partly completed service concession asset (or asset under construction) and associated liabilities? If so, please provide your views on those

requirements, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.

15. Do you have comments regarding the subsequent measurement requirements for financial liabilities? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.
16. Do you have comments regarding the initial and subsequent measurement, including amortisation, of GORTO liabilities? If so, please provide your views, relevant circumstances and their significance. In your response, please also explain the accounting adopted or proposed and the reasons for that accounting.
17. Are there any other comments regarding the AASB 1059 recognition and measurement requirements for liabilities of a service concession arrangement that you think the AASB should consider?

## **Topic 5: Other matters**

### **Questions for respondents**

18. Do you have any comments regarding the disclosure requirements in AASB 1059 (paragraphs 28 and 29), which cover both qualitative and quantitative information about a grantor's service concession arrangements? If so, please provide your views on those requirements and their significance.
19. Do you have any comments regarding the Implementation Guidance and Illustrative Examples that accompany AASB 1059? If so, please provide your views and any suggested amendments.
20. Are there any other matters that the AASB should consider as part of this PIR? If so, please explain those matters and why they should be considered, and provide examples to illustrate your response. For example, in your view are there new or emerging arrangements for which it is difficult to determine whether they are within the scope of AASB 1059 or for which service concession accounting might not be suitable?

### **AASB General Matters for Comment**

In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:

21. Does the application of AASB 1059 adversely affect any regulatory requirements for grantors?
22. Does the application of AASB 1059 result in major auditing or assurance challenges?
23. Overall, does AASB 1059 result in financial statements that are more useful to users of public sector grantors' financial statements?
24. In your view, do the benefits of applying the requirements of AASB 1059 exceed the implementation and ongoing application costs?