

The Looking Glass

Welcome

Welcome to another edition of the Looking Glass. This edition includes a high-level discussion on the new standard for service concession arrangements. AASB 1059 *Service Concession Arrangements: Grantors* represents a significant change and it is, of course, not possible to cover all its complexities in this publication. As always, you should contact Treasury or your advisors for further information. Treasury's Accounting Policy Team has been in regular contact with the cluster agencies most impacted by the change. I would also like to remind you that members of Cross-Cluster Implementation Working Group continue to coordinate work on the implementation of the major new standards. Finally, please let us know if there are any topics you would like covered in future editions.

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AASB 1059 Service Concession Arrangements: Grantors

Service concession arrangements, also known as public private partnerships (PPPs), are arrangements that public sector entities enter into with the private sector to deliver public services. In July 2017 the Australian Accounting Standards Board (AASB) issued a new Australian Accounting Standard (AAS) *AASB 1059 Service Concession Arrangements: Grantors* (AASB 1059), applicable to reporting periods beginning on or after 1 January 2019. Previously there was no specific AAS prescribing the accounting for service concession arrangements from the grantor's perspective, which lead to divergence in accounting for these types of arrangements amongst Australian jurisdictions. AASB 1059 was issued with the aim of creating consistency in grantor accounting for service concession arrangements as well as improving transparency and consistency in the reporting of costs, benefits and risks of public service projects.

Scope of AASB 1059

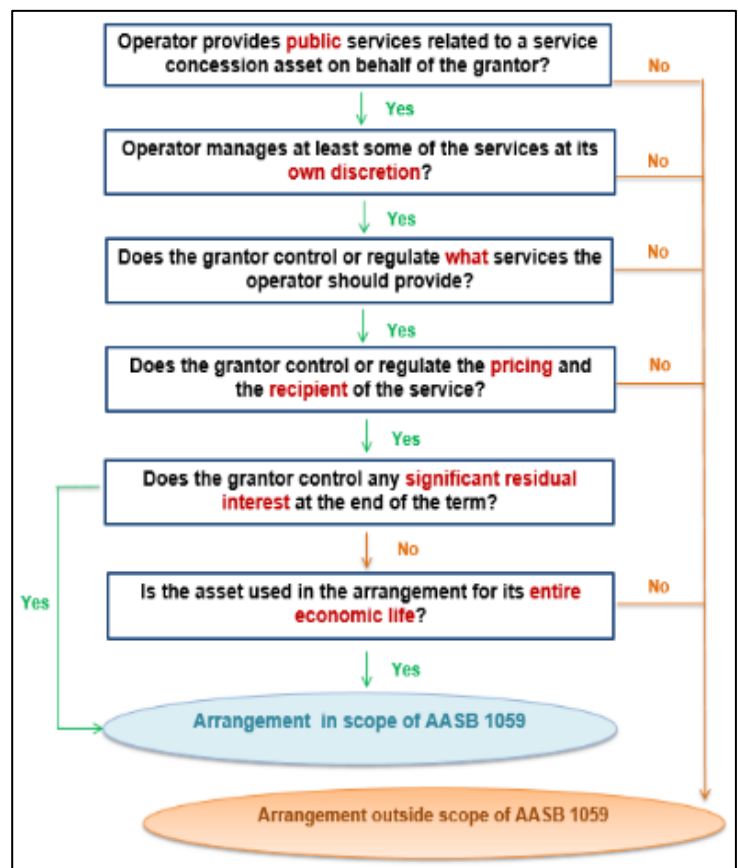
AASB 1059 applies to service concession arrangements where:

- The operator provides **public** services related to a service concession asset (SCA) on behalf of a grantor;
- The operator **manages** at least some of those services under its own discretion, rather than at the direction of the grantor; and
- The grantor **controls** the SCA (refer to decision tree)

Recognition & Measurement

On initial recognition, the grantor will recognise a service concession asset and a corresponding liability of the same value:

- **Service concession assets** are not limited to assets constructed, developed or acquired by the operator, they can also be existing assets of the grantor or operator (including upgrades/replacements).
- **Liability** - On initial recognition, AASB 1059 requires a corresponding liability of the same amount as the SCA to be recognised. The nature of the liability and the subsequent accounting will depend on the nature of the consideration given by the grantor to the operator.
 - *Financial liability* – Where the grantor has a contractual obligation to pay cash or another financial asset to the operator in exchange for the SCA.
 - *Grant of a right to the operator* (GORTO) - Where the operator is granted the right to earn revenue from third-party users or the right to access another revenue-generating asset in exchange for the SCA.
 - *Hybrid* – Where an operator is compensated with a combination of payments and a right to earn revenue, a financial and non-financial liability is recognised. The financial liability portion is measured first, with the remainder of the FV of the service concession arrangement allocated to the GORTO liability.



	Initial recognition	Subsequent measurement
Service concession asset	Current replacement cost (FV)	AASB 116, AASB 138, AASB 136
Financial liability	Equal to SCA	AASB 9
GORTO liability	Equal to SCA	Revenue recognised as GORTO liability is reduced

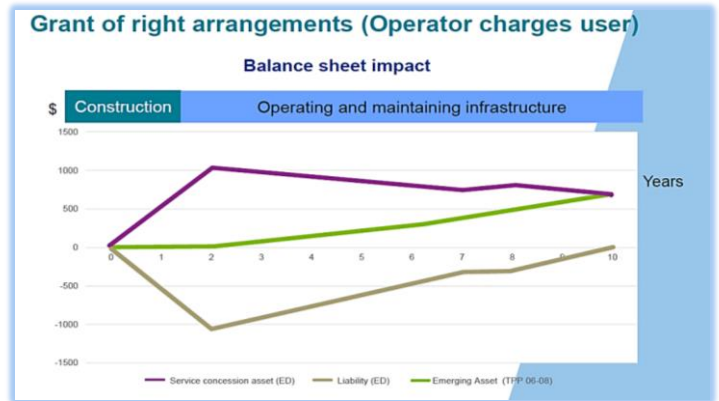
Key impacts of AASB 1059

- Move from a 'risks and rewards' approach to a 'control approach'
- Significant balance sheet gross up – asset and financial/GORTO liability recognised from day 1 (i.e. could be during construction)
- Recognition of assets previously not recognised under existing standards e.g. internally generated intangibles

As a result of AASB 1059, Treasury is currently developing the new guidance to be published late 2018 when *TPP06-08 Accounting for Privately Financed Projects* will be replaced. Draft guidance addressing scoping requirements has already been issued to agencies.

Significant judgment will be required in the scoping process, particularly in the assessment of control, and arrangements previously not caught by TPP06-08 may fall within the scope of AASB 1059.

Example of typical toll road PPP - The green line represents a steady accretion towards an emerging asset under existing rules. The purple and brown lines represent the service concession asset and GORTO



Implementation of Major New Standards

A quantitative disclosure of the estimated impact of new standards' (AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities, AASB 16 Leases and AASB 1059 Service Concession Arrangements: Grantors) will be made in the upcoming 2018-19 Half-Yearly Review. Principal departments are leading the assessment work for their clusters, with the collated cluster assessment due to Treasury by 19 October. Departments and agencies should complete the review of material, if not all, contracts to provide a robust impact assessment. Agencies are encouraged to reach out to their cluster representative on the Cross-Cluster Implementation Working Group if they have any queries or feedback. Treasury will continue to provide guidance and support to agencies. A Project Implementation Group has been established within Treasury attended by representatives from accounting policy, budget, reporting, PRIME system and ABP teams to assist the project implementation.

Other Developments: The table below briefly highlights other recent accounting developments.

Financial reporting developments	Issue date	Suggested action
<p>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors (ED 283)</p> <p>ED 283 proposes to add requirements and guidance to AASB 15 for the not-for-profit public sector. These amendments would clarify how to account for intellectual property (IP) and non-IP licenses. The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) submitted comments to the AASB on these proposals. In particular, HoTARAC recommended the AASB:</p> <ul style="list-style-type: none"> clarify the distinction between taxes and licences and consider corresponding guidance from the Australian Bureau of Statistics, and provide further guidance on how to distinguish performance obligations from mere features of an arrangement. 	<p>AASB reviewed feedback and decided next steps at May and June 2018 meetings.</p> <p>Expected completion Q4 2018.</p>	<p>NSW Treasury will continue to monitor developments resulting from this ED and will work closely with clusters to identify potential impacts.</p>
<p>Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems (ITC 39)</p> <p>In March 2018 the IASB issued a revised Conceptual Framework for Financial Reporting (RCF), effective for annual periods beginning or after 1 January 2020. To enable Australian entities to maintain IFRS compliance, the AASB needs to adopt the RCF. The RCF, however, introduces a new definition of 'reporting entity' that is different to the existing reporting entity concept currently used in AAS.</p> <p>In May 2018 the AASB issued ITC 39 that proposes a two-phased approach to adopting the RCF in Australia:</p> <ul style="list-style-type: none"> Phase 1 – Publicly accountable for-profit entities and other entities voluntarily reporting compliance with IFRS will adopt RCF to maintain IFRS compliance. All other entities continue to apply the existing conceptual framework. Phase 2 – RCF applicable to all entities required to comply with AAS (effectively removing the ability to lodge special purpose financial statements). Tier 2 general purpose financial statements under AASB 1053 will potentially be revised from the existing reduced disclosure framework, to a specified disclosure framework (specified disclosures from nine AAS). <p>In August 2018 HoTARAC submitted comments on phase 1 to the AASB; comments on phase 2 are due by 9 November 2018.</p>		<p>HoTARAC to submit comments to AASB.</p>
<p>Discussion Paper Financial Instruments with Characteristics of Equity (DP/2018/1)</p> <p>In June 2018 the IASB issued DP/2018/01 that sets out defined principles for the classification of financial liabilities and equity instruments without seeking to fundamentally changing the existing classification outcomes of IAS 32. Under the IASB's preferred approach, a financial instrument must be classified as a financial liability if its contractual terms contain an unavoidable obligation:</p> <ol style="list-style-type: none"> to transfer cash or another financial asset at a specified time other than at liquidation (timing feature); and/or for an amount independent of the entity's available economic resources (amount feature). <p>Equity is a residual that remains if the characteristics of a financial liability are not fulfilled. In addition, DP/2018/01 proposes to provide more comprehensive information on the characteristics of issued instruments through presentation and disclosure. Comments on the discussion paper are due to the IASB by 7 January 2019.</p>		<p>HoTARAC to submit comments to IASB.</p>
<p>The AASB's Approach to International Public Sector Accounting Standards (ITC 41)</p> <p>In August 2018 the AASB issued ITC 41 which is proposed to replace the AASB Approach to IPSASs issued in October 2011. ITC 41 sets out the conditions necessary for the AASB to recommend moving from IFRS Standards to IPSAS as the basis for NFP public sector accounting and, the AASB's level of involvement in IPSASB standard-setting processes. Comments on ITC 41 are due to the AASB by 30 November 2018.</p>		<p>HoTARAC to submit comments to AASB.</p>
<p>Questions?</p> <p>Please contact Sean Osborn if you would like to discuss any of the above Standards. Please email accpo! if you have any feedback or would like to subscribe to <i>The Looking Glass</i>.</p>	<p>This publication is made available for information purposes only and is not intended to be a substitute for, or relied upon as, specific professional advice. All persons accessing this publication are responsible for making their own enquiries in relation to assessing the relevance, completeness and accuracy of its contents. To the full extent permitted by law, the State of NSW excludes all liability for loss or damage of any kind to any person arising from or related to this publication (however such loss or damage is caused, including by negligence).</p>	