

# **Explanatory Statement**

## **Accounting Standard AASB 2019-2 *Amendments to Australian Accounting Standards – Implementation of AASB 1059***

**September 2019**



**Australian Government**

**Australian Accounting  
Standards Board**

# EXPLANATORY STATEMENT

## Standards Amended by AASB 2019-2

This Standard makes amendments to AASB 16 *Leases* (February 2016) and AASB 1059 *Service Concession Arrangements: Grantors* (July 2017).

The AASB received feedback from some public sector stakeholders regarding issues applying the modified retrospective method stated in paragraph C4 of AASB 1059. Stakeholders also commented that, since mandatory application of AASB 1059 has been deferred by one year to annual periods beginning on or after 1 January 2020, it would be possible for some service concession arrangements to be captured by AASB 16 prior to the application of AASB 1059. Stakeholders expressed a view that applying AASB 16 for one year to service concession arrangements could be onerous. The AASB considered stakeholders' feedback and decided to amend AASB 16 and AASB 1059 to address these issues.

### 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*.

## Main Features of AASB 2019-2

### Main Requirements

AASB 2019-2 amends AASB 16 and AASB 1059 to:

- (a) amend the modified retrospective method set out in paragraph C4 of AASB 1059 as follows:
  - (i) specify the financial liability should be recognised at fair value at the date of initial application;
  - (ii) initially measure the Grant of a Right to the Operator (GORTO) liability representing the unearned portion of any revenue arising from the receipt of a service concession asset based on the current replacement cost of the service concession asset at the date of initial application adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the service concession asset;
  - (iii) measure a liability representing any third-party unearned revenue arising from the receipt of additional consideration from the operator for access to an existing asset of the grantor that has been reclassified as a service concession asset at the proceeds received, adjusted to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement;
- (b) modify AASB 16 to provide a practical expedient to grantors of service concession arrangements so that AASB 16 would not need to be applied to assets that would be recognised as service concession assets under AASB 1059; and
- (c) include editorial amendments to the application guidance and implementation guidance accompanying AASB 1059.

### Application Date

AASB 2019-2 applies to annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

### 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.

## Consultation Prior to Issuing this Standard

The AASB issued a Fatal-Flaw Review version of the proposed amending Standard in June 2019 for public comment by 17 July 2019. The AASB received four submissions, including from the following public sector stakeholders: the Heads of Treasuries Accounting and Reporting Advisory Committee, NSW Treasury and the Australasian Council of Auditors General. All respondents supported the AASB changing the modified retrospective method to measure the GORTO liability stated in paragraph C4(c) of AASB 1059 and providing a practical expedient to grantors of service

concession arrangements to not apply AASB 16 to assets that would be recognised as service concession assets under AASB 1059.

Respondents also provided feedback on additional issues in applying the modified retrospective method stated in paragraph C4 of AASB 1059 in relation to measurement of the financial liability, and measurement of the liability representing the unearned revenue arising from the receipt of additional consideration from the operator for access to an existing asset of the grantor that has been reclassified as a service concession asset. The AASB considered stakeholders' feedback and decided to make further amendments to AASB 1059 to address these issues.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2019-2 as the amendments made do not have a substantial direct or indirect impact on business or competition. The amendments are relevant only to public sector entities that are grantors under service concession arrangements.

# Statement of Compatibility with Human Rights

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

## **Accounting Standard AASB 2019-2 Amendments to Australian Accounting Standards – Implementation of AASB 1059**

### **Overview of the Accounting Standard**

This Standard amends AASB 16 *Leases* (February 2016) and AASB 1059 *Service Concession Arrangements: Grantors* (July 2017) to:

- (a) amend the modified retrospective method set out in paragraph C4 of AASB 1059 as follows:
  - (i) specify the financial liability should be recognised at fair value at the date of initial application;
  - (ii) initially measure the Grant of a Right to the Operator (GORTO) liability representing the unearned portion of any revenue arising from the receipt of a service concession asset based on the current replacement cost of the service concession asset at the date of initial application adjusted to reflect the remaining concession period relative to the total period of the arrangement, rather than relative to the remaining economic life of the service concession asset;
  - (iii) measure a liability representing any third-party unearned revenue arising from the receipt of additional consideration from the operator for access to an existing asset of the grantor that has been reclassified as a service concession asset at the proceeds received, adjusted to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement;
- (b) modify AASB 16 to provide a practical expedient to grantors of service concession arrangements so that AASB 16 would not need to be applied to assets that would be recognised as service concession assets under AASB 1059; and
- (c) include editorial amendments to the application guidance and implementation guidance accompanying AASB 1059.

### **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*.