

Explanatory Statement

Accounting Standard AASB 2021-4 *Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors*

June 2021



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2021-4

This Standard makes amendments to AASB 1059 *Service Concession Arrangements: Grantors* (July 2017).

The AASB received comments from a stakeholder regarding the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 when implementing the Standard. The stakeholder noted that the Standard is unclear how financial contributions paid by the grantor to the operator prior to the date of initial application should be treated when calculating the GORTO liability under the modified retrospective transition approach. The stakeholder noted that if these financial contributions were not adjusted in the grantor's liability calculation, the GORTO liability at the date of initial application would be likely to be overstated, which in turn would lead to the overstatement of revenue in subsequent periods as the GORTO liability is unwound over the period of the service concession arrangement. The AASB considered the stakeholders' comments and decided to amend AASB 1059 to address the issue.

Marked-up Text

This Standard incorporates marked-up text to clearly identify the amendments to AASB 1059. All amendments are incorporated using clean text into the compilation of AASB 1059 when prepared, based on the legal commencement date of the amendments.

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 2021-4

Main Requirements

AASB 2021-4 amends AASB 1059 to change the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 so that the GORTO liability is initially measured based on the fair value (current replacement cost) of the service concession asset at the date of initial application, adjusted by:

- (a) deducting the carrying amount of any consideration transferred by the grantor to the operator recognised as an asset;
- (b) adjusting the resulting amount to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement; and then
- (c) deducting any outstanding related financial liabilities.

Application Date

AASB 2021-4 applies to annual reporting periods ending on or after 30 June 2021, 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 May 2021 for comment by 4 June 2021. The AASB received three submissions and informal comments from another stakeholder. All respondents were supportive of the AASB changing the modified retrospective method to measure the GORTO liability stated in paragraph C4(c) of AASB 1059.

One stakeholder noted that the changes to AASB 1059 paragraph C4(c) proposed in the Fatal-Flaw Review version of the Standard specifically addressed only financial consideration paid by the grantor to the operator prior to the date of initial application of the Standard. The stakeholder commented that the GORTO liability and subsequent revenue would also be likely to be overstated if the grantor had provided non-financial consideration prior to the date of initial application that was not adjusted in determining the grantor's GORTO liability.

The AASB considered the feedback received and decided to amend AASB 1059 to address the issues. The AASB decided that expanding the scope of the amendments to include non-financial consideration was appropriate, based on the principles and approach proposed in the Fatal-Flaw Review version.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2021-4 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

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Overview of the Accounting Standard

This Standard amends AASB 1059 *Service Concession Arrangements: Grantors* (July 2017) to change the modified retrospective method for measuring the Grant of a Right to the Operator (GORTO) liability set out in paragraph C4(c) of AASB 1059 so that the GORTO liability is initially measured based on the fair value (current replacement cost) of the service concession asset at the date of initial application, adjusted by:

- (a) deducting the carrying amount of any consideration transferred by the grantor to the operator recognised as an asset;
- (b) adjusting the resulting amount to reflect the remaining period of the service concession arrangement relative to the total period of the arrangement; and then
- (c) deducting any outstanding related financial liabilities.

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*.