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| FRD 124 |  |  | Transitional requirements on the application of AASB 1059 *Service Concession Arrangements: Grantors* (June 2020) |
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| Purpose |  | 1.1 | To prescribe the accounting for transition requirements on the application of AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059). |
| Application |  | 2.1 | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994,* except those entities which are not controlled by the State and whose financial position and result are thus not consolidated in the Annual Financial Report for the State of Victoria. Application by State owned corporations is encouraged. |
| Operative date |  | 3.1 | This FRD applies to annual reporting periods commencing on or after 1 January 2019[[1]](#footnote-1). |
| Requirements |  | 4.1 | *Initial application of AASB 1059*  The date of initial application is the beginning of the earliest reporting period for which comparative information is presented in the financial statements.[[2]](#footnote-2) |
|  |  | 4.2 | An entity shall apply AASB 1059 retrospectively to each prior period presented in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. |
|  |  | 4.3 | Retrospective application requires the derecognition or adjustment of any service concession assets and liabilities recognised under previous accounting policies or the initial recognition of service concession assets and liabilities. To the extent that the existing values are similar to those that would need to be recognised under AASB 1059, only a reclassification adjustment will be required.  Any net adjustment on initial application of AASB 1059 is recognised as an adjustment to the opening balance of accumulated surplus (deficiency). When the grantor applies the revaluation model in AASB 116[[3]](#footnote-3) as its accounting policy, the net adjustment is included in accumulated surplus (deficiency) and not revaluation surplus.[[4]](#footnote-4) |
|  |  |  | *Transitional Disclosures*  Entities shall state the fact that AASB 1059 has been early adopted.  An entity shall disclose the following information about initial application required by paragraph 28 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors:*   1. **the title of the Australian Accounting Standard;** 2. **the change in accounting policy is made in accordance with its transitional provisions;** 3. **the nature of the change in accounting policy;** 4. **a description of the transitional provisions;** 5. **the transitional provisions that might have an effect on future periods;** 6. **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;** 7. **the amount of adjustment relating to periods before those presented, to the extent practicable; and** 8. **if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**   Impracticable application will be rare and in this instance entities should consult with DTF.  Financial statements of subsequent periods need not repeat these disclosures. |
| Definitions |  | 5.1 | **Grantor –** The entity that grants the right to access the service concession asset to the operator. |
|  |  | 5.2 | **Operator** – The entity that has the right of access to the service concession asset to provide public services. The operator can be a public or private entity. |
|  |  | 5.3 | **Service concession arrangement –** A contract effective during the reporting period between a grantor and an operator in which:   * + 1. The operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time;     2. The operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor; and     3. The operator is compensated for its services over the period of the service concession arrangement. |
|  |  | 5.4 | **Service concession asset –** An asset (other than goodwill) to which the operator has the right of access to provide public services on behalf of the grantor in a service concession arrangement that:   * + 1. The operator constructs, develops, upgrades or replaces major components, or acquires from a third party or is an existing asset of the operator; or     2. Is an existing asset of the grantor, including a previously unrecognised identifiable intangible asset and land under roads, or an upgrade or replacement of a major component of an existing asset of the grantor. |
| Guidance |  | 6.1 | Entities should assess existing arrangements to determine whether they are within or outside the scope of AASB 1059. This includes existing PPP and other long-term arrangements.  Supporting information and checklists have been published on the DTF website:  [www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists](https://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists) |
|  |  | 6.2 | An example of the disclosures is illustrated in the Model Report for Victorian Government Departments for the relevant reporting period and is available on the DTF website:  [www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Model-Report](http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-Reporting-Policy/Model-Report) |
| Relevant pronouncements |  | 7.1 | AASB 1059 Servi*ce Concession Arrangements: Grantors* |
| Background |  | 8.1 | The Australian Accounting Standards Board (AASB) published AASB 1059 to fill a perceived void in the Australian financial reporting framework, in particular as it relates to public private partnerships from the Grantor’s perspective. This standard applies only to the public sector and aligns broadly to private sector accounting requirements as included in Interpretation 12 *Service Concession Arrangements*, although there are differences, as highlighted in the basis of conclusions of the standard[[5]](#footnote-5)  This FRD issued in March 2020, mandates the transitional requirements of AASB 1059 on initial application. The FRD was updated in June 2020 to clarify that intangible assets that are recognised under AASB 1059 must be measured using the revaluation model after initial recognition. |

1. AASB 1059 is applicable for reporting periods commencing on or after 1 January 2020, however the State of Victoria elected to adopt this new accounting standard one year earlier. The application of AASB 1059 and this FRD is therefore for periods beginning on or after 1 January 2019. [↑](#footnote-ref-1)
2. The date of initial application is 1 July 2018 (For 30 June year-end reporters) and 1 January 2018   
   (for 31 December year-end reporters). [↑](#footnote-ref-2)
3. FRD 103H 4.2 requires the revaluation model to be used unless an entity has received the prior written approval of the Minister for Finance to measure at cost. [↑](#footnote-ref-3)
4. Should the application of AASB 1059 result in an intangible asset being recognised that previously did not meet the recognition criteria of AASB 138, the intangible asset will be recognised at current replacement cost upon application of AASB 1059 and the adjustment included in accumulated surplus. The asset will be subsequently measured applying the revaluation model. [↑](#footnote-ref-4)
5. AASB 1059 BC 128-130 *Comparison with AASB Interpretation 12* [↑](#footnote-ref-5)