

FAQ – What are the valuation requirements for service concession assets on transition to AASB 1059?

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Entities are required to measure the deemed cost of a service concession asset (including an existing asset of the grantor reclassified as a service concession asset) at fair value at the date of initial application. AASB 1059 requires fair value to be at current replacement cost¹

Treasury has mandated the modified retrospective approach under AASB 1059.C3(b) for NSW Government entities. This means applying AASB 1059 retrospectively by recognising and measuring service concession assets and related liabilities at the date of initial application², i.e. 1 July 2019.

The below table sets out the valuation requirements for service concession assets on transition to AASB 1059.

Type of Service Concession Asset	Valuation Requirements on Transition to AASB 1059
<p>Existing assets already on balance sheet and measured at FV using CRC in accordance with TPP 14-01.</p> <p>(e.g. existing assets that will be reclassified from one subclass to another e.g. from PPE-Infrastructure to PPE- Infrastructure-Service concession assets)</p>	<p>No change – continue to perform valuations in accordance with and as required by TPP 14-01 for the relevant class of assets.</p> <p>(Note - In accordance with TPP 14-01, agencies must assess at each reporting date whether there is any indication that an asset’s carrying amount differs materially from fair value.)</p>

¹ AASB 1059.C4(a)

² The date of initial application is the beginning of the earliest reporting period for which comparative information is presented in the financial statements. For public sector entities, AASB 1059 is applicable from 1 July 2020 which means the first year of application is FY20/21. The initial application date is therefore 1 July 2019 being the beginning of the comparative period FY19/20 presented in the FY20/21 financial statements.

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Type of Service Concession Asset	Valuation Requirements on Transition to AASB 1059
<p>Existing assets already on balance sheet and measured at FV using <u>market or income approach</u> in accordance with TPP 14-01.</p> <p>(e.g. existing assets that will be reclassified from one subclass to another e.g. from PPE-Infrastructure to PPE- Infrastructure-Service concession assets)</p>	<p>Comprehensive valuations performed by external professionally qualified valuers using CRC approach required for initial application date <u>1 July 2019</u>. Ongoing valuations to be performed as required and in accordance with TPP 14-01 for the relevant class of assets.</p> <p>(Note that a change in valuation technique under AASB 13 is accounted for as a change in estimate in accordance with AASB 108. It is not considered a revaluation of the asset and therefore will not trigger a revaluation of the entire class of assets.)</p>
<p>Assets to be brought onto balance sheet for the first time.</p>	<p>Comprehensive valuations performed by external professionally qualified valuers using CRC approach required for initial application date <u>1 July 2019</u>. Ongoing valuations to be performed as required and in accordance with TPP 14-01 for the relevant class of assets.</p> <p>Exception - Where agencies have an existing valuation at CRC for the asset e.g. professional valuations previously used to calculate emerging asset under TPP 06-8</p> <p>Agencies may rely on their latest CRC independent valuation as a proxy for the CRC of the service concession asset as at 1 July 2019.</p> <p>In doing so, agencies should:</p> <ul style="list-style-type: none"> ensure they have a well-documented assessment that the carrying amount does not materially differ from fair value at 30 June 2019 /1 July 2019 – and that the fair value has been measured using CRC,

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	<ul style="list-style-type: none">• ensure that the CRC for an asset under AASB 116 is the same basis when determining the CRC for a service concession asset under AASB 1059. That is, the 'asset' versus 'service concession asset' are identical – with identical CRC valuation parameters,• obtain confirmation from their valuer that their 1 July 2019 valuation would not change for the purposes of AASB 1059. This should not be construed as needing the valuer to provide a new valuation.

Any net adjustment to the amounts of assets on initial application of AASB 1059 is recognised as an adjustment to opening retained earnings