

**International Seminar on  
Strengthening Public Investment and Managing Fiscal Risks from  
Public-Private Partnerships**

Budapest, Hungary

March 7–8, 2007

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**International Federation  
of Accountants**

**Mike Hathorn (Chair)  
International Public Sector Accounting Standards Board**

**PPPs and International Public Sector Accounting  
Standards**

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and Managing Fiscal Risks from Public-Private  
Partnerships**

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## **PURPOSE OF THIS PAPER**

This paper provides broad details on the IPSASB's recently approved project on service concession arrangements.

Because the IPSASB project is still in its infancy, this paper does not attempt to deal with specific technical issues that will determine the accounting for service concession arrangements by governments as either grantors or operators. These will be considered as the project progresses.

The IPSASB notes the significant development that on 30 November 2006, the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) issued Interpretation—IFRIC 12 Service Concession Arrangements. IFRIC 12 does not address accounting for the grantor (most typically the government) side of service concession arrangements.

This paper does not attempt to analyze in detail any IPSASB concerns with the proposals for governments in IFRIC 12. Those concerns were identified in the IPSASB's submissions to IFRIC, and dealt with as the IFRIC feels appropriate. However, the principles applied in IFRIC 12 will be considered as part of the IPSASB's project.

Through-out this paper the term "service concession arrangements" has been applied because it is the terminology used by the IASB. However other terms that have been used include "public/private service arrangements", "public-private partnerships (PPP)", "private finance initiative (PFI)" or "Build Own Operate (BOO) or Build Own Operate Transfer (BOOTS) schemes".

Any queries relating to the IPSASB's project on service concession arrangements should be directed to:

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## **BACKGROUND - IPSASB'S WORK ON SERVICE CONCESSION ARRANGEMENTS**

The IPSASB has had a project on service concession arrangements on its work program for many years.

The initial stage of the IPSASB standards setting program was established with the specific limited objectives of developing a credible core set of IPSASs within a short period of time. While the first stage of the standards program focused on convergence with the International Financial Reporting Standard (IFRS) of the IASB, the IPSASB had identified a number of specific public sector issues not addressed, or not adequately addressed, by the IFRSs – one of which was the development of guidance on service concession arrangements.

Limited resources, other high priority projects and the actioning of a project by the IFRIC meant that an IPSASB project was not actioned during 2002 – 2005, or later.

In late 2004 and early 2005, the IPSASB noted preliminary results emerging from a broad survey of IPSASB members which indicated the importance of the issue in a number of jurisdictions, that guidance was in place or being developed in those jurisdictions and that guidance was not necessarily the same.

On 3 March 2005, the IFRIC issued the following draft Interpretations dealing with financial reporting of service concession arrangements for comment by 31 May 2005:

- D12, “Service Concessions Arrangements – Determining the Accounting Model”;
- D13, “Service Concessions Arrangements – The Financial Asset Model”;
- D14, “Service Concessions Arrangements – The Intangible Asset Model” (collectively known as the Draft Interpretations).

The IPSASB appointed a subcommittee (comprising Canada, France, United Kingdom, Argentina, Australia, Israel, New Zealand, South Africa and USA) to review the draft Interpretations and provide comments to form the basis of a response to the IFRIC (the issue of IFRIC 12 on 30 November 2006 effectively concluded the need for the subcommittee).

The IPSASB's submission was submitted to IFRIC on 1 June 2005 expressing concern about a number of aspects of the draft Interpretations. These concerns included:

- the narrow scope of the draft Interpretations;
- the focus on providing guidance to the operator without guidance on treatment by the grantor;
- the notion of the ‘control’ approach used in the draft Interpretations (members were concerned with IFRIC's interpretation of control, particular in respect of its implications for the public sector);
- whether the rationale that the ‘control’ approach was superior to the ‘risks and rewards’ approach was convincing;
- the use of different accounting models based solely on the “ identity of the payer/funder of the concession arrangements”; and

- that the matter was being dealt with by IFRIC rather than the IASB. Members were of the view that a Standard rather than an Interpretation (or series of Interpretations) was necessary to deal with the issues that arise in respect of service concession arrangements for both the grantor and operator.

Of key importance was that regardless of the final outcome of IFRIC deliberations on the numerous concerns raised by the IPSASB, it was clear that in the end authoritative guidance for grantors would not be provided in the final approved interpretations. This became a further driver for an IPSASB project on this topic.

In conjunction with the IPSASB's July 2006 meeting, the IPSASB invited standards setters and other authoritative bodies from the following countries to participate in discussions about the potential for a 'collaborative' project on service concession arrangements. (Canada, China, Australia, France, Italy, Netherlands, New Zealand, South Africa, Spain, Switzerland, UK, USA and the FEE Public Sector Committee. The IASB and the International Task Force on Harmonization of Public Sector Accounting (TFHPSA) would also be represented).

It was decided to initiate a collaborative project. A project brief was subsequently agreed upon at the following IPSASB meeting in November 2006.

It was also agreed the project should not necessarily be directed at putting in place authoritative guidance which mirrored the IFRIC Interpretations. Instead, the project should at least initially, adopt a more fundamental approach starting with the preparation of a form of consultation paper for public comment.

On 30 November 2006, the IFRIC issued Interpretation—IFRIC 12 Service Concession Arrangements with an effective date for annual periods beginning on or after 1 January 2008. As alluded to above, IFRIC 12 addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the grantor side of the arrangement. IFRSs are not designed to apply to not-for-profit activities in the private sector or the public sector.

## **PROJECT OBJECTIVE**

To develop financial reporting guidance on service concession arrangements for public sector entities.

## **PROJECT SCOPE**

The proposed guidance will be for public sector entities.

Government Business Enterprises (GBEs) are profit seeking entities. As noted in the "Preface to International Public Sector Accounting Standards" GBEs apply IFRSs issued by the IASB and are therefore subject to the IASB's "Framework for Preparation and Presentation of Financial Statements" (the IASB Framework).

However, while GBEs are required to apply IFRSs, the IPSASB project will consider possible reporting implications for GBEs (for example, a public sector entity could be involved in a service concession arrangement via a GBE structure).

## **MATERIAL TO BE DEVELOPED**

### *Consultative Paper for Public Comment*

Initially, a consultative paper will be prepared for public comment. It will focus on fundamental principles (for both public sector grantors and operators) forming the basis for the remainder of the project.

The content of the consultative paper is still being drafted. However, it has been proposed to consider the following areas:

- Getting a broad level understanding of the key attributes of service concession arrangements (both existing and anticipated) globally – with specific examples;
- Identifying the key issues of trying to account and report on those attributes;
- Considering at a broad level, international responses to the issue; and
- Within the parameters of existing IPSASs (incl definitions of financial statement elements), suggesting underlying tenets as a basis for solutions to those issues

Liaison with the IASB will be a priority through-out the project. Symmetry/similarity with any existing service concessions guidance will not be an underlying assumption - at least at the consultative paper stage of the IPSASB project.

As the project evolves, it would be expected to consider, as a minimum, issues raised in IPSASB responses on the IFRIC draft interpretations. The list below provides examples of possible areas that the project could explore further and is indicative only.

- Clarifying terminology (eg: ‘service concession arrangement’ vs ‘PPP’)
- Assessing the adequacy of existing International Public Sector Accounting Standards (IPSASs) for addressing both known and anticipated service concession arrangements;
- Determining the scope of eventual proposals – which arrangements are covered and which are not;
- Determining the accounting implications for those arrangements which would fall beyond the scope of any proposals;
- Considering symmetry of accounting for both parties to a service concession arrangement;
- Considering accounting implications for other arrangements governments may have related to the employment of their capital assets – eg: leasing, sale-leasebacks or other arrangements;
- Considering recognition of infrastructure subject to service concession arrangements (eg: apply the notion of ‘control’, ‘risks and rewards’, or some other criteria);
- Considering recognition of revenue and expenditure flowing from these arrangements;

- Determining the relevance and implications (if any) for accounting flowing from the “identity of the payer/funder of the concession arrangements”;
- Considering and being cognizant of developments with the IPSASB’s conceptual framework project;
- Determining the impact of accounting for related infrastructure from a ‘components’ vs ‘entire infrastructure’ perspective;
- Considering the treatment of counter-parties;
- Considering the impact of concessions that have been netted; and
- Considering recognition of specific terms and conditions within arrangements (eg: penalty clauses).

### **CONSULTATIVE PROJECT - SUBCOMMITTEE AND PROJECT ADVISORY PANEL**

As alluded to above, the IPSASB will lead the project in collaboration with national standards setters and similar authoritative bodies which have responsibility for financial reporting by public sector entities in their jurisdiction (the term NSS is used in this document to encompass all such national standards setters and similar bodies that are party to the collaborative project).

Collaboration provides the opportunity for the development of a substantially harmonized approach to accounting for service concession arrangements across a number of jurisdictions, provides the opportunity for the IPSASB to be informed of any work already undertaken at the national level in many jurisdictions, and has the potential to be a resource efficient mechanism for all that are party to it.

A new service concessions arrangements subcommittee has been formed who will be charged primarily with the role developing material for review and approval for issue by the IPSASB.

A new project advisory panel has also been established. Their role will be to provide input to the subcommittee as required.

Confirmed membership of both groups are given below:

## SUBCOMMITTEE

Country	Member	Contact
<i>IPSASB</i>	<i>IPSASB</i>	<i>IPSASB</i>
Canada	Richard Neville – Chair	Richard Neville
Australia	Peter Batten	Peter Batten
Switzerland	Andreas Bergmann	Andreas Bergmann
Italy	Stefano Pozzoli	Stefano Pozzoli
<i>NSS</i>	<i>NSS</i>	<i>NSS</i>
United Kingdom	Michelle Crisp	Ian Mackintosh
IMF	Abdul Khan Stephen Mayes (alt)	Richard Hemming
Eurostat	Marcin Woronowicz Philippe de Rougemont	Eduardo Barredo-Capelot
South Africa	Amanda Botha	Erna Swart
IASB-IFRIC	Noreen Whelan	Noreen Whelan

## PROJECT ADVISORY PANEL

Country	Member	Contact
Accounting Planning and Managing General Assistant Directorate - Spain	D. Víctor Nicolás Bravo	Mónica García Sáenz Belén Hernández Fernández-Canteli
Public Member IPSASB – USA	John Peace	John Peace
New Zealand Institute of Chartered Accountants	Annette Davis	Annette Davis
Ministry of Finance - France	Patrick Soury	Patrick Soury



## PROJECT SCHEDULE

Final outputs for the project will be influenced by responses on the consultative paper. In the interests of completeness, the project schedule below has been developed in the event that an International Public Sector Accounting Standard is deemed an appropriate product for the project.

July 2006	IPSASB and NSS agree to action a collaborative project.
Nov 2006	IPSASB approve project brief.
Q1-Q2 2007	Draft consultation paper developed and approved by service concession arrangements subcommittee – submitted to IPSASB.
November 2007	Consultation paper approved for issue for public comment by the IPSASB.
Q1-Q3 2008	Responses to consultative paper reviewed – draft ED prepared.
November 2008	Final IPSAS approved.

## **About IFAC**

IFAC is the worldwide organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 155 members and associates in 118 countries, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce. In addition to setting international education standards through the IAESB, IFAC, through its independent standard-setting boards, sets standards on ethics, auditing and assurance, and public sector accounting. It also issues guidance to encourage high quality performance by professional accountants in business.

## **About the IPSASB**

The IPSASB, operating under the auspices of the International Federation of Accountants, focuses on the accounting and financial reporting needs of national, regional and local governments, related governmental agencies, and the constituencies they serve through the development of high quality accounting standards for use by public sector entities around the world. Enhancing the quality and transparency of public sector financial reporting contributes to strengthening public confidence in public sector financial management. A primary goal of the IPSASB is to achieve convergence in financial reporting between different governments, with the private sector, and between financial reporting and economic statistics.