



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: OCTOBER 23, 2006
MEMO TO: MEMBERS OF IPSASB
FROM: BARRY NAIK
SUBJECT: PUBLIC PRIVATE PARTNERSHIP/SERVICE CONCESSION
ARRANGEMENTS

ACTION REQUIRED

The IPSASB is asked to:

- **approve** a project brief; and
- **note** recent developments with the service concessions project of the International Financial Reporting Interpretations Committee (IFRIC).

AGENDA MATERIAL

Item	Pages
10.2 Draft Project Brief – Public Private Partnerships (PPPs) Project	10.10 – 10.20

BACKGROUND

The International Accounting Standards Board (IASB) IFRIC is developing Interpretations dealing with service concession arrangements. On 3 March 2005, they issued the following draft Interpretations (an overview of the draft interpretations is given in appendix 1):

- D12, Service Concessions Arrangements – Determining the Accounting Model;
- D13, Service Concessions Arrangements – The Financial Asset Model; and
- D14, Service Concessions Arrangements – The Intangible Asset Model.

The IPSASB submitted a response to the draft interpretations on 1 June 05. That response raised a number of concerns about the narrow scope of the project, its implications for notions of control in the public sector, and the proposed models for recognition of revenue over the life of the arrangement.

Following its July 2005 meeting, the IPSASB established a sub-committee to monitor the work of the IFRIC. The sub-committee's role is to keep the IPSASB informed of developments and make proposals to the IPSASB re any actions the subcommittee considers appropriate (the sub-committee comprises the following members: Canada (Chair), Australia, Israel, France, New Zealand, South Africa, United Kingdom, USA and OECD).

For the information of the Board, appendix 2 identifies IFRIC progress/decisions on service concessions as reflected in the IFRIC Update newsletter, published after each IFRIC meeting

up to May 2006. Further, appendix 3 identifies recent significant developments of the IFRIC relating to the project from its meeting in September 2006 – again taken and summarised from the IFRIC's September 2006 newsletter. The appendix 3 summary concludes with the IFRIC deciding to submit the draft interpretations to the IASB for final approval.

At the IASB's October meeting, the IASB briefly discussed the revised draft interpretations from the IFRIC's September meeting without making changes other than editorial. The Board unanimously supported the revised draft. It was decided to post the revised draft on the IASB website and to give constituents an opportunity to comment on it within a short comment period. The Board intends to approve a final Interpretation at its November 2006 meeting (it is anticipated that IASB members and/or staff attending this session will also contribute to the discussion on the IASB's/IFRIC's recent deliberations).

From an IPSASB perspective, for some time the IPSASB has been exploring the potential for a collaborative project to provide authoritative guidance to public sector entities that are party to service concession arrangements.

As a result, in conjunction with the IPSASB July 2006 meeting, the IPSASB invited standards setters and other authoritative bodies from the following countries to participate in discussions about the potential for such a project (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).

An agenda was prepared with a staff paper on matters/issues for discussion including consideration of whether a collaborative project should be actioned and the nature and objectives of any such project.

Staff prepared an issues paper with their preliminary views on key matters to help focus discussion. The key element of the staff paper was that the project should not be directed at putting in place authoritative guidance which mirrors the IFRIC Interpretation when issued. Rather, the case was put forward for a more fundamental approach starting with the preparation of a consultation paper.

Ultimately, it was agreed the IPSASB should initiate such a project which would focus on the development of such a paper. It was also agreed that the current IPSASB sub-committee monitoring the IFRIC project would continue in that role until the actioning of the collaborative project.

As a consequent step, a draft project brief was agreed to be prepared for review and approval at the IPSASB's November 2006 meeting.

Barry Naik
TECHNICAL MANAGER

APPENDIX 1

OVERVIEW OF THE DRAFT INTERPRETATIONS

The overview of the draft Interpretations below is extracted from the IASB's website when IFRIC initially issued the draft Interpretations for comment.

Introduction

- 1 On 3 March 2005, the IFRIC published for comment three draft Interpretations on service concessions. Comments have been requested by 31 May 2005.
- 2 The draft interpretations address arrangements whereby public services—such as the construction and operation of roads, hospitals, prisons, waste disposal plants or energy distribution facilities—are contracted to private 'operators'. The draft interpretations address only the accounting by the operators. They do not specify the accounting by the 'grantors' of the contracts, typically governments or their agencies.
- 3 These arrangements typically involve significant capital expenditure on infrastructure. The infrastructure may already exist and need only be maintained (and perhaps enhanced) by the operator. Or the concession may require the operator to construct the infrastructure before operating it.
- 4 The draft interpretations apply only to concessions in which the grantor retains control over the use to which the infrastructure is put: it decides what services the operator must provide, to whom it must provide them and at what price; and it retains control of the residual interest in the infrastructure at the end of the concession.
- 5 The way in which operators at present account for such infrastructure under their local GAAPs varies. In some countries, the accounting has been characterised by smoothing adjustments designed to report smooth profit trends over the concession. There has been uncertainty about the requirements of IFRSs. One question is about the nature of the operator's expenditure on construction of infrastructure—should the operator recognize property, plant and equipment or some other type of asset? Another question is about the treatment of borrowing costs incurred by the operator to finance the infrastructure. These borrowing costs tend to be higher in early years—can they be capitalized and allocated evenly over the contract?
- 6 The IFRIC has sought to address these questions and provide guidance on other aspects of service concession accounting. Because of the range of matters to be covered, the IFRIC has split the interpretations into three separate documents.

D12 Determining the Accounting Model

- 7 D12, the first draft Interpretation, specifies how an operator should classify its expenditure on construction of infrastructure. D12 proposes that, because the operator does not control the use of the infrastructure, it should not recognize it as its own property plant and equipment. Instead, it should account for the rights it

receives in return for providing construction services to the grantor.

- 8 D12 proposes that the classification of the operator's rights should depend on who is required to pay for the concession services:
 - a) if the grantor will pay for the concession services itself, the operator has a contractual right to receive cash in exchange for its construction services. D12 proposes that such a right to receive cash meets the definition of a financial asset and should be accounted for as such.
 - b) if instead, the contract gives the operator a right to charge users for the concession services—for example, to charge tolls for operating a road—D12 proposes that the operator does not have a contractual right to receive cash. Instead, the operator has a right to charge users if and when they use the concession services—a right that meets the definition of an intangible asset. The operator should therefore recognize the right it receives in exchange for providing construction services as an intangible asset.
- 9 The two different models have different accounting consequences and are dealt with separately in the second and third of the interpretations.

D13 The Financial Asset Model

- 10 D13 sets out the accounting proposed when the financial asset model applies. The operator would apply standard construction contract accounting, recognizing revenue on a percentage of completion basis as construction progressed. The resulting asset (the amount due from the grantor) would meet the definition of a financial asset and be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The amounts subsequently received from the grantor for the concession services would be allocated between three components:
 - repayment of the financial asset
 - finance income — the effective interest on the outstanding receivable
 - operating revenue — for provision of ongoing services such as maintenance and staffing.
- 11 Often an operator's borrowings will be similar to the amount due from the grantor, both tending to reduce over the duration of the contract. Applying the financial asset model, the impact on profit of higher borrowing costs in earlier years and lower borrowing costs in later years would tend to be offset by a similar pattern of finance income.

D14 The Intangible Asset Model

- 12 D14 sets out the accounting proposed when the intangible asset model applies. The operator would again apply construction contract accounting, recognizing construction revenue on a percentage of completion basis as construction progressed. But it would not be receiving cash for its services. So instead of giving rise to a receivable, the

revenue-earning activity would give rise to an intangible asset. This intangible asset would be accounted for in accordance with IAS 38.

- 13 The amounts reported in the income statement would be different from those reported under the financial asset model. Overall, the net profit or loss reported over the duration of the contract would be the same. But both revenues and operating expenses would be higher: all receipts from users—not just those attributable to operating the facilities after construction—would be recognized as revenues, matched by additional operating expenses from the amortization of the intangible asset. And the pattern of profit recognition could be different: higher borrowing costs in earlier than later years would contribute to lower profits (or losses) being recognized in earlier years and higher profits in later years (because there would be no corresponding finance income). The IFRIC concluded that it would be inconsistent with IFRSs, and the IASB's conceptual framework, to defer borrowing costs in order to smooth profits over the duration of the contract.

APPENDIX 2

IFRIC'S SERVICE CONCESSIONS PROJECT

IFRIC Decisions to end 2005

Major decisions on service concessions made by IFRIC post the end of comment period on D12, D13, D14 to the end of December 2005 include:

- To progress this project itself as an Interpretation(s) rather than refer it to the IASB for the development of an IFRS. The IFRIC members believed that, with its limited scope project, the IFRIC was better placed than the IASB to deal with the pressing issues in a timely way and decided to continue its work on the project.
- The Interpretations will not specify accounting by grantors. However, the basis for conclusions will note that, in many cases, the government/grantor will control the physical assets, but the resulting accounting had not been considered explicitly by IFRIC.
- The scope of the Interpretations will not include private-to-private service concession arrangements. However, IFRIC noted that application by analogy could be appropriate under the hierarchy in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". IFRIC will consider examples to test this proposal at its next meetings (3-4 November and/or 1-2 December, 2005).
- For service concession arrangements within the scope of the draft Interpretations, the infrastructure should not be recognized as property, plant and equipment of the operator because the indicators of control lead to the conclusion that the grantor controls the asset. The control indicators are the grantor's ability to control the use of the infrastructure throughout the concession and its control of the residual infrastructure at the end of the concession.
- To change the proposals in the draft Interpretations to narrow the circumstances in which financial assets would be recognized. This is to ensure that the Interpretations were consistent with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". The basis for conclusion will note agreement that might be supportive of a wider interpretation of IAS 32. Text is being developed.

Other issues that IFRIC has indicated it will re-consider in light of responses from constituents (some of these issues were also highlighted by the IPSASB in its submission to IFRIC):

- The meaning of 'control', 'public service obligation' and 'infrastructure';
- Distinction/boundary between the financial asset model and the intangible asset model based on "who paid for the arrangements";
- Whether users and grantors should be considered separate parties in all instances;
- Relationship of the scope of the Draft Interpretations to SIC 29, "Disclosure—Service Concession Arrangements";

- Exclusion of “whole of life” arrangements (arrangements where no significant residual interest exists); and
- Lack of guidance on the application of the requirements proposed in the draft Interpretations to partly regulated assets

IFRIC meeting in January, 2006

A project plan submitted by staff proposed delivery of final Interpretations by the third quarter of 2006, assuming that re-exposure is not necessary. While continuing to move forward, the IFRIC noted that issuing final Interpretations in the third quarter of 2006 may be optimistic.

Major issues discussed by the IFRIC at its January meeting included:

- The scope of D12. Many respondents, including the IPSASB, had expressed concern that D12 did not deal with a range of potential arrangements. The IFRIC noted that guidance was needed most urgently for those arrangements that were dealt with in D12. IFRIC decided not to extend the scope of the project, but to explain in the basis for conclusions that a spectrum of arrangements is possible and users should refer to relevant standards for arrangements not dealt with in the Interpretations. Any further guidance needed, may be undertaken as a separate IFRIC project.
- The pattern of recognition of revenue and profit under the “Intangible Asset Model”. IFRIC determined to continue with the view as proposed in D14.
- Additional issues to consider. As the project develops, the IFRIC will also consider “whole-of-life” arrangements (arrangements where all the service potential of the infrastructure is consumed under the terms of the arrangement) and approaches that apply the requirements in IAS 16 “Property, Plant and Equipment” to improvements in infrastructure subject to service concession arrangements.

Major decisions/discussions/conclusions reported in IFRIC Updates (in March and May 2006) were to:

- Better align explanations in D.12 with the definition of a financial asset in IAS 32 – to reflect that a financial asset exists when the operator has a contractual right to receive cash;
- Extend the scope of arrangements dealt with by the Interpretations to encompass arrangements which involve the use of the asset for the whole of its useful life;
- Clarify that any significant residual interest in an asset at the completion of the arrangement is to be controlled by the grantor;
- Consider whether pre-existing assets of the operator should also be included within the scope of the Interpretations (currently only pre-existing assets of the grantor are included.);
- Clarify and better explain the amortization methods that could be adopted for intangible assets under the Interpretations;
- Include guidance to the IASs/IFRSs that might apply to arrangements falling outside the scope of the Interpretation;
- Combine in a single Interpretation matters previously dealt with in draft Interpretations D12-D14; and

- Deal in a separate project with IFRICs previous conclusion that a “sale and leaseback” arrangement which incorporates a repurchase provision should not, in fact, be accounted for as a sale and leaseback (because the seller retains effective control and therefore the criteria for recognizing a sale would not be met). This decision reflects that this conclusion has wider implications than for just service concession arrangements.

APPENDIX 3

RECENT DEVELOPMENTS WITH THE IFRIC ON DRAFT INTERPRETATIONS

(Taken from IFRIC September 2006 newsletter)

The IFRIC met most recently, 7-8 September 2006. It considered a draft text reflecting the decisions taken by the IFRIC during its post-exposure deliberations. The IFRIC noted and confirmed the following main changes from the proposals:

- It contains a more comprehensive discussion of the reasons for the scope limitations and the reasons for the ‘control of use approach’. An ‘Information Note’ has been added to provide references to standards that apply to public-to-private arrangements outside the scope of the guidance;
- It now includes ‘whole of life infrastructure’ (ie infrastructure used in a service concession arrangement for its entire useful life);
- Under D12-D14, an entity would have determined the appropriate accounting by reference to whether the grantor or the user of the public service had primary responsibility to pay the operator for the services provided. The draft text now requires that an entity should recognise:
 - a financial asset to the extent that the operator has an unconditional contractual right to receive cash from or at the direction of the grantor; and
 - an intangible asset to the extent that it receives a licence to charge users of the public service.

If the operator is paid for its services partly by a financial asset and partly by an intangible asset it is necessary to account separately for each component of the operator’s consideration.

- It clarifies that the nature of the asset recognised by the operator as consideration for providing construction services (a financial asset or an intangible asset) does not determine the accounting for the operation phase of the arrangement;
- It contains an amendment to IFRIC 4 *Determining Whether an Arrangement Contains a Lease* to specify that if a service concession arrangement meets the scope requirements of the draft text it would not be within the scope of IFRIC 4.

Subject to drafting comments, the IFRIC confirmed its decisions and directed presentation of the revised draft text to the Board for issue as an Interpretation. The IFRIC recommended not re-exposing the guidance because the main changes made reflected issues discussed in D12-D14.

The IFRIC noted that, given the significance of the Interpretation, it was more appropriate that the Board should determine the effective date. However, it was noted that the effective date was unlikely to be before 1 January 2008.

INTERNATIONAL FEDERATION OF ACCOUNTANTS
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
DRAFT PROJECT BRIEF

Service Concessions/Public Private Partnerships (PPPs) Project

BACKGROUND

The IPSASB has had a PPPs project 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. IPSASB papers prepared to support promotion of the program in late 2000/early 2001 explained that while the first stage of the standards program focused on IFRS convergence objectives, the PSC had identified a number of specific public sector issues not addressed, or not adequately addressed, by the IASs.

One of those issues was the development of guidance on PPPs, then a widely used term for service concessions.

Limited resources, other high priority projects and the actioning of the project by IFRIC meant that an IPSASB project on PPPs was not actioned during 2002 – 2005, or later. Subsequent IPSASB papers noted developments at IFRIC and potential concerns with certain aspects of the draft Interpretations as they were being developed.

At its meetings in late 2004 and early 2005, the IPSASB noted preliminary results emerging from a broad survey of IPSASB members intended to indicate whether PPPs were an issue in their jurisdictions, whether guidance was in place in their jurisdictions and, if yes, how that guidance lined up with what was anticipated to be reflected in the IFRIC draft Interpretations. (With the release of the draft Interpretations imminent, completion of the survey was not pursued.)

While now out of date, that survey 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 International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) issued the following draft Interpretations dealing with financial reporting of service concession arrangements for comment by 3 May 2005:

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

The IPSASB submitted a response to the draft interpretations on 1 June 05 noting its concerns with certain aspects, in particular:

- they did not deal with accounting for the grantor, typically (but not exclusively) the public sector party to a service concession agreement;
- the notion of control adopted; and
- the basis for differentiation between the financial asset and intangible asset models for recognition of revenue over the life of the arrangement.

These and other concerns were also raised by other respondents to the draft Interpretations.

In mid-2005 the IPSASB established a sub-committee to monitor the IFRIC's work. The sub-committee keeps IPSASB informed of developments and makes proposals to the IPSASB regarding any actions they consider appropriate (the sub-committee comprises the following members: Canada (Chair), Australia, Israel, France, New Zealand, South Africa, United Kingdom, USA and OECD).

For some time the IPSASB has been exploring the potential for a collaborative project to provide authoritative guidance to public sector entities that are party to service concession arrangements.

As a result, in conjunction with the IPSASB July 2006 meeting, the IPSASB invited standards setters and other authoritative bodies from the following countries to participate in discussions about the potential for such a project (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).

As a result, at the July 2006 meeting, the following key decisions were made about PPPs:

- initiate a collaborative research project on financial reporting on PPPs by both grantors and operators;
- the IPSASB sub-committee monitoring the IFRIC project would continue in that role until the actioning of the collaborative project; and
- IPSASB in consultation with the national standards setters and similar organizations will develop for approval in November 2006, a project brief.

In agreeing to a collaborative project, it was also understood that the project should not be directed at putting in place authoritative guidance which mirrors the IFRIC Interpretations. Instead, the project should adopt a more fundamental approach starting with the preparation of a form of consultation paper.

Of key importance is that regardless of the final outcome of IFRIC deliberations on the numerous concerns raised by the IPSASB on the interpretations, it is clear that in the end

authoritative guidance for grantors will not be provided in the final approved interpretations. Ultimately, this is the primary driver for an IPSASB project on this topic.

This project brief does not attempt to deal with specific technical issues that will determine the accounting for PPPs. These will be developed as project progresses. Nor does it attempt to analyse in detail potential concerns with the proposals in the IFRIC draft Interpretations. Those concerns have been identified in submissions to IFRIC, and dealt with as IFRIC feels appropriate.

Appendix 1: “Background - IPSASB’s Work on Service Concession” provides more detail on the above summary on the IPSASB’s work on service concessions .

PROJECT OBJECTIVE

To develop financial reporting guidance on PPPs for public sector entities.

PROJECT SCOPE

Proposed guidance will be for public sector entities other than Government Business Enterprises (GBEs).

GBEs apply IFRSs issued by the International Accounting Standards Board (IASB). As such, GBE’s would apply any IFRIC/IASB pronouncements on the matter.

IPSASB DUE PROCESS

The development of PPP guidance will be subject to the IPSASB’s formal due process for the development of IPSASs involving;

- issuance (in this instance) of a consultation paper for public comment;
- issuance for public comment of an exposure draft (ED) of proposed requirements of an IPSAS;
- consideration of ED responses; and
- approval and issuance of a final IPSAS.

As alluded to, the guidance will be developed as a collaborative project with other national standards setters (NSS) and similar bodies. A proposed project timeframe is attached which encompasses all the due process steps.

The issuance of documents for comment (exposure drafts and/or other consultative papers) will be subject to the usual IPSASB voting rules. Once approved for release, documents may also be released by the NSS for domestic review together with any contextual commentary considered necessary by the NSS in each jurisdiction.

COLLABORATIVE PROJECT

In conjunction with the IPSASB July 2006 meeting, the IPSASB met with representatives of a number of NSS and other authoritative bodies to discuss the potential of a collaborative project on the development of financial reporting guidance on PPPs.

It was agreed to initiate a collaborative research project for both grantors and operators.

Some key advantages of a collaborative project would be to:

- provide opportunity for more harmonization on the issue;
- potentially be a more efficient approach for all involved;
- provide greater opportunity for the IPSASB to know of work already underway at the national level (minimize re-inventing the wheel); and
- further strengthen relationships between IPSASB and NSSs and other organizations.

MATERIAL PREPARED

Consultative Paper – Fundamental Principles

Initially, a broad research paper should be prepared by a PPP sub-committee (discussed below) producing a consultative paper for public comment on fundamental principles for the remainder of the project.

It should start with a basic research project/document which:

- considers, at a broad level, issues that need to be considered (some possible themes are discussed in a listing below);
- draws out the implications of existing definitions and concepts of for example, assets and liabilities for dealing with those issues; and
- considers current practice and requirements in a number of jurisdictions.

The resulting paper would not be constrained by any existing PPP standards nor would it necessarily reflect the views of the IPSASB or the NSS (but would make recommendations to the IPSASB for the development of authoritative guidance).

Development of the paper would also provide an excellent opportunity for creating a harmonized approach in the long term.

As alluded to above, while focusing on the identification of issues and their resolution in financial reporting by the grantor, it should also draw out the implications of any recommended approaches for financial reporting by the operator.

As the project evolves, depending upon the direction the project takes, it would be expected to address, as a minimum, themes raised in IPSASB material on the IFRIC draft interpretations. Some examples would include but would not be limited to:

- the adequacy of existing standards for addressing both known and anticipated arrangements of this nature;

- the scope of eventual proposals – which arrangements are covered and which are not;
- accounting implications for those arrangements which would fall beyond the scope of any proposals;
- accounting implications for other arrangements governments may have related to the employment of their capital assets – eg: leasing, sale-leasebacks or other arrangements;
- recognition of infrastructure subject to PPP arrangements (eg: apply the notion of ‘control’, ‘risks and rewards’, a ‘hybrid’ or some other criteria);
- recognition of revenue and expenditure flowing from these arrangements;
- relevance and implications (if any) for accounting flowing from the “ identity of the payer/funder of the concession arrangements”;
- ensuring any recommendations comfortably reconcile with developments in the IPSASB’s collaborative project on a conceptual framework; and
- reconciliation issues (if any) of those proposals with those applied by the operator to the arrangement (symmetry?).

Related to the final point, developing authoritative guidance that mirrors the IFRIC would be particularly relevant for those jurisdictions which adopt IFRSs for private sector entities (or ensure their national private sector standards are harmonized with IFRSs) and adopt the same requirements for the public sector unless there is a public sector reason to differ.

The IPSASB has previously issued consultation papers which encompass:

- Invitations to Comment (ITCs) developed by steering committees;
- Studies developed by individual authors; and
- Research Reports prepared by individuals or sub-committees.

In the case of the recently issued IPSASB consultation paper on heritage assets, the paper was developed by a NSS after input and comment by an IPSASB sub-committee and with an introduction which explained the nature and role of the paper.

The nature and content of a subsequent public ED will be subject to feedback (complexity/controversy) on the consultative paper.

Members of the NSS may already have useful material to help the sub-committee.

During development, drafts of the consultation paper will be provided to all IPSASB and NSS members on request.

Consultative Paper – Advances the Issue for all Sectors

IFRIC is responding to the need to put in place in the short term authoritative guidance applicable to private sector operators which are party to service concession arrangements by interpreting existing IASs/IFRSs. It is a practical response to a current need of the IASB’s constituents.

The establishment of a research project as proposed is a viable mechanism to add value to the process without undermining or endorsing what IFRIC needs to achieve in the short term.

As noted above, the IPSASB consultation paper would not be authoritative and would present the views of the PPP sub-committee rather than the boards/organizations of which they are a member. As such, it also provides the opportunity for IASB participation or input in the development process. Such participation would auger well for the future development of authoritative guidance appropriate for both sectors.

SUB-COMMITTEE

In July 2006 it was agreed that the IPSASB Chair and staff would follow up with participants to confirm their interest in participation in the project as a member of the PPP sub-committee or project advisory panel (PAP). See appendix 2 for recent confirmed nominations for the sub-committee.

In July it was also agreed that the existing IPSASB sub-committee monitoring the IFRIC project would continue in that role until the actioning of the collaborative project.

Sub-Committee - Composition

Ideally, a PPP sub-committee group comprising three IPSASB members and approximately four members of the NSS would be established to develop the paper (a group of 7 strikes a balance between attaining good jurisdictional representation whilst keeping the group to a well manageable size). An IPSASB member would chair and be responsible to reporting to the IPSASB.

Three IPSASB members are proposed for membership to:

- allow for IPSASB input from IPSASB as members of the PPP sub-committee rather than as its Chair;
- support continuity of IPSASB participation; and
- provide the potential for different IPSASB perspectives to be brought during the development stage.

Different sub-committee operating models may be implemented. The actual model used will be determined once the sub-committee has been determined. The sub-committee would seek input from a PAP as appropriate.

A designated member of each NSS not actively participating on the PPP sub-committee would form a PAP who would be provided with all PPP sub-committee materials for comment.

RESOURCE REQUIREMENTS

The project is expected to result in a final IPSAS in November 2008 (see the proposed project schedule included with this paper). The length of the project would be influenced by the nature of feedback received as it progresses.

The IFRIC interpretations were issued in March 2005. The draft interpretation was supported by the IASB in October 2006 – subject to a short comment period on its website (final approval expected November 2006). The proposed timeframes for IPSASB guidance take into consideration issuing a consultative paper and also working with the Board's scheduled three meetings per year.

It is anticipated that staff of one NSS member would take the lead in development of the consultative paper for the sub-committee. IPSASB staff would maintain regular contact with the NSS staff person. Further, as alluded to, where possible, the sub-committee would make use of materials in place in PPP sub-committee member jurisdictions and the PAP. Staff of the IPSASB and relevant NSSs would act as TAs to the PPP sub-committee, and providing support to the lead NSS staff as appropriate.

In July, some standard setters and other organizations from several countries said it was likely they could provide staff resources to support/participate in the project. The representative of the USA-GASB has confirmed the GASB is prepared to provide staff to take the lead in the drafting of papers for the sub-committee.

Appendix 2 provides recent information about possible support from NSS staff.

PROJECT SCHEDULE

July 2006	IPSASB and NSS agree to action a collaborative project.
August – September 2006	<p>NSS confirm their interest in participating in project and nature of that participation.</p> <p>IPSASB members advise IPSASB chair of their interest in participation in the development of the consultation paper.</p> <p>IPSASB - IFRIC sub-committee continue monitoring the IFRIC developments.</p>
Nov 2006	IPSASB approve project brief.
Q1-Q2 2007	Draft consultation paper developed and approved by PPP sub-committee – submitted to IPSASB.
July 2007	Consultation paper approved for issue by the IPSASB.
Q1 – 2008	Responses to consultative paper reviewed – draft ED prepared.
Mar 2008	IPSASB review and approve ED for issue.
Q2-Q3 2008	Responses to ED reviewed – final IPSAS prepared.
November 2008	Final IPSAS approved.

APPENDIX 1

BACKGROUND - IPSASB'S WORK ON SERVICE CONCESSION

The IPSASB has on its work program a project to deal with service concession arrangements. Part of the work in this project includes monitoring the IASB's IFRIC's project on service concession arrangements.

On 3 March 2005, IFRIC published for comment three draft Interpretations on service concession arrangements. At the IPSASB's 14 – 17 March 2005 meeting it was agreed that IPSASB would submit comments to IFRIC. A sub-committee was appointed to review the draft Interpretations and provide comments to staff who would then prepare a draft comment letter to IFRIC. The draft comment letter would then be circulated to all IPSASB members for their review and approval to submit.

The sub-committee comprised members from Canada, France, United Kingdom, Argentina, Australia, Israel, New Zealand, South Africa and USA. A draft letter was circulated out-of-session for approval by IPSASB members. The submission was approved subject to minor revisions. Those revisions were processed and cleared with the relevant member and the IPSASB Chair.

The IPSASB's submission was submitted to IFRIC on 1 June 05. The IPSASB's submission expressed concern about a number of aspects of the draft Interpretations. These concerns include:

- 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.

At its November/December 2005 meeting in Cape Town, the IPSASB noted an update on IFRIC's deliberations from the IPSASB sub-committee. The IPSASB agreed to write to national standards setters to explore the potential for a collaborative project to provide authoritative guidance to public sector entities that are party to service concession arrangements.

At its March 2006 meeting in Tokyo, the IPSASB noted a further update on IFRIC's deliberations from the IPSASB sub-committee. The IPSASB also noted that responses from a number of national standards setters indicated an interest in exploring the potential for a collaborative project. The IPSASB agreed to invite those standards setters and other relevant organizations to meet with the IPSASB at its next meeting to discuss further a collaborative project.

Members agreed to provide staff with the names of organizations in their jurisdictions that should be invited.

At the IPSASB's March meeting, the OECD observer noted that:

- the OECD was holding a major symposium on public private partnerships (PPPs) in Madrid during the week of the IPSASB meeting; and
- the IPSASB, its members and national standards setters would be invited to attend a session of the OECD symposium to discuss financial reporting issues. As requested, details of those attending the IPSASB meeting were provided to the OECD.

During April and May 2006, invitations were issued to a number of organizations to meet with the IPSASB in Paris in July.

May and June 2006. An issues paper was prepared by IPSASB staff in conjunction with the sub-committee as a basis for discussions at the IPSASB meeting.

APPENDIX 2

NOMINATIONS FOR MEMBERSHIP OF PPP SUB-COMMITTEE

Contact Name	Country	Chair Sub-com	Member Sub-com	Monitor	Staff lead	Comments
Paolo Germani – cc Pompeo Pepe Marcello Bessone	Ministry Economica/Finance, Italy		X		X	
Lionel Vareille	Ministry of Finance – France		X		X	
D Bean	GASB	X	X		X	IPSASB USA Member 2007
Erna Swart	South Africa - ASB		X		-	
D Victor Nicolas Bravo	Ministry of Economy/Finance, Spain			X		
Ian Mackintosh	UK -ASB		X			Staffing possible
Jim Paul	Australia AASB		X		-	
Simon Lee	FRSB – NZ			X		
IPSASB Members:						
Philippe Adhémar, Jean-Luc Dumont	France		X			Consult new member 2007
Erna Swart	South Africa		X			
Carmen Palladino	Argentina		X			
Lucie Laliberte	IMF		X			
Rick Neville	Canada	X				
Tadashi Sekikawa	Japan		X			Prefer Con F/w sub-com
John Peace	Public Member – USA		X			
Wayne Cameron	Australia*		X			Consult new member 2007
Andreas Bergman	Public Member – Switzerland		X			