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## ACCOUNTING FOR PPP ARRANGEMENTS, INCLUDING PFI, UNDER IFRS

This letter introduces a paper setting out how PPP arrangements, including PFI contracts, should be accounted for under IFRS. Where such arrangements fall within the scope of IFRIC 12, the public sector grantor should recognise the infrastructure asset on its balance sheet. Normally, this would mean that the operator would not recognise the infrastructure asset because, from their viewpoint, the two conditions in paragraph 5 of IFRIC 12 are not met. It is possible that recognition under a 'risks and rewards' approach (IAS 17) could be required for National Accounts purposes. Responses are required by Monday 11 February 2008. A separate (FD) letter on budgets and Estimates will be issued on 13 December.

The attached paper was discussed by the Financial Reporting Advisory Board at its meeting on 10 December 2007, and has been amended to reflect the Board's comments. The Board will discuss the topic again at its meeting on 28 February 2008.

### Accounting for PPP arrangements, including PFI, under IFRS

2. Interpretation 12 *Service Concession Arrangements* (IFRIC 12) was issued by the International Financial Reporting Interpretations Committee in November 2006. It gives guidance on the accounting by operators (the private sector). The attached paper sets out the principles that should underpin the accounting by the public sector grantor.

3. The paper concludes that, where an arrangement falls within the scope of IFRIC 12 (and some arrangements will not), the public sector grantor should recognise the infrastructure asset on its balance sheet. Normally, this would mean that the operator would not recognise the infrastructure asset because, from their viewpoint, the two conditions in paragraph 5 of IFRIC 12 are met. The asset should be valued in the same way as other assets of that class.



4. IFRIC 12 includes guidance on other accounting areas related to service concession arrangements, and we will issue draft accounting guidance on these areas next week.

#### **Links with National Accounts**

5. In preparing the National Accounts balance sheet, the Office for National Statistics (ONS) currently uses the accountants' assessment of the resource accounting treatment of PFI contracts. It is possible that the ONS could need information on a 'risks and rewards' basis (IAS 17) for National Accounts purposes.

#### **Responses are due by 11 February 2008**

6. I should be grateful for any general comments on the proposed accounting approach set out in the attached paper to inform the further development of guidance in the IFRS-based FReM and to inform the Board's discussion at its meeting on 28 February 2008. I also welcome your responses to the main points raised in the paper.

- Would an assessment of the accounting treatment of your PFI contracts that meet the definition of a service concession arrangement differ under IAS 17 from the approach proposed in paragraph 14 of the paper? Please give examples of key projects where the treatment would differ, together with the reasons why. Would an approach that required you to assess projects under both IFRIC 12 and IAS 17 impose significant additional burdens?
- Are there any additional areas of guidance that you think should be provided and, if so, why you think they are needed (paragraph 24 of the attached paper).



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