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Comments on ED 43 Service Concession Arrangements: Grantor

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the ED 43 Service Concession Arrangements: Grantor.

ESV is the government agency responsible for financial management and development of GAAP for the Swedish central government. Full accrual accounting was introduced in 1993 and we hope that our experience will be a contribution in your work with various accounting issues.

Overall Opinion

Our overall opinion is that we support the approach in ED 43.

It has been criticized that governments in several countries have not in full disclosed future effects of public-private partnership (PPP)-contracts in the annual reports. It has been a general view that PPP-contracts merely are a way for government to get round budget restrictions. At the present PPP-contracts are not common in Sweden. The operators of service concession arrangements have practically always been Government Business Enterprises. ESV believes that it is likely that service concession arrangements will increase in number in the future and that the government will use arrangements with private enterprises. The standard is therefore important in the development of uniform accounting standards in Sweden.

We have however found that the standard is very extensive, which is strengthened by the fact that it refers to many other standards that are themselves extensive and complicated. In our opinion there will therefore emerge a need to further develop the standard in the future as more PPP-contracts are signed.

Specific Matters for Comment

Recognition and Measurement of a Service Concession Asset

Despite the proposed standard there may be difficulties to determine if a PPP-contract is a service concession arrangement. That is the case, for example when an

asset is a Service concession asset or a finance lease arrangement that should be disclosed as Property plant and equipment. It might also be difficult for the grantor to subdivide for example roads into components in a fair way, which could have the effect that service concession arrangement assets are not comparable to owned assets of the same kind.

Recognition and Measurement of Liabilities

The compensation from service concession arrangement contracts are often tied to indexes, for example changes in interest rates or traffic intensity. It may therefore be difficult to make reliable measurements of the liabilities. Even minimal changes in the estimations may affect the liability significantly as the contracts often are valid for 20-30 years. It is therefore extremely important to disclose information that explains the content of the arrangement.

Presentation and Disclosure

The need of information in the public sector usually differs from the need of information in the private sector. ESV is normally of the opinion that many IPSASs – when it comes to demand for presentation and particularly disclosure – are too demanding compared to information needs to be disclosed in the Swedish central government. PPP-contracts however are often extensive and difficult to interpret. An extensive presentation and disclosure of service concession arrangements is therefore of utmost importance when it comes to understand the implications of the arrangements. In particular there are often obligations that are difficult to interpret and that extend over decades. We therefore strongly support that the entity shall disclose information in respect of service concession arrangements according to paragraph 27.

Concluding Remarks

We hope the comments given will be useful in your continuing work with accounting standards. We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards.

Curt Johansson and Claes-Göran Gustavsson have prepared the comments given in this report.

Yours sincerely,

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