PSAB
Public Sector
Accounting Board

# Statement of Principles

# Public Private Partnerships

July 2017

COMMENTS TO PSAB MUST BE RECEIVED BY
OCTOBER 17, 2017

A PDF response form has been posted with this document to assist you in submitting your comments to PSAB. Alternatively, you may send comments via email (in Word format), to:

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Please address your comments to:

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This Statement of Principles reflects proposals made by the Public Sector Accounting Board (PSAB). It presents key principles that the Board expects to include in a future exposure draft.

Individuals, governments and organizations are invited to send written comments on the Statement of Principles. Comments are requested from those who agree with the Statement of Principles as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Statement of Principles should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by PSAB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

# Highlights

The Public Sector Accounting Board proposes, subject to comments received on this Statement of Principles, and following its due process, to expose a proposed new Section on certain public private partnerships.

The Section would apply to public sector entities that base their accounting policies on the CPA Canada Public Sector Accounting Handbook.

## Main features

The main features of the proposals in this Statement of Principles are as follows:

- Public private partnership infrastructure is procured by the public sector entity using a private sector partner whose obligations include: a requirement to build, acquire, improve or refurbish; finance; and maintain and/or operate the infrastructure.
- Public private partnership infrastructure is recognized as an asset where the public sector entity controls the infrastructure.
- A liability is recognized where the public private partnership gives rise to an obligation to the public sector entity to sacrifice future economic benefits.
- Infrastructure and the associated liability are measured initially at cost.

## Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of the Statement of Principles.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify generically the source of the comment in the response. This will promote an understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific principle, paragraph or group of paragraphs. Any comments expressing disagreement with the proposals in the Statement of Principles should clearly explain the problem and include a suggested alternative, supported by specific reasoning, for alternative wording.

Supporting reasons for your comments are most valuable when they demonstrate how the Statement of Principles proposals, or your alternatives:

- produce more relevant information for accountability and decision-making by external users;
- improve the representation of the substance of the underlying transaction or event;
- contribute to improved measures and understanding of financial position and annual results;
- facilitate enhanced comparability; and
- provide sufficient information for external users to understand the financial statements.

Please respond to the following questions:

1. Do you agree the scope of this Statement of Principles should be limited to those public private partnerships where the public sector entity procures infrastructure using a private sector partner whose obligations include:

   - a requirement to build, acquire, improve or refurbish;
   - finance; and
   - maintain and/or operate the infrastructure?

   If not, what public private partnerships should be included or excluded?

2. Do you agree the term “infrastructure” accurately reflects items that should be covered in the Statement of Principles? If not, what term is more appropriate?

3. Do you agree the clarified control guidance is appropriate and sufficient as it relates to the recognition of infrastructure? If not, what further clarifications are necessary and what other basis of recognition is appropriate?

4. Do you agree a liability should be recognized when the public sector entity has an obligation to deliver cash or another financial asset as consideration for the building, acquisition, improvement or refurbishment of infrastructure? If not, where should the credit entry be presented?

5. Do you agree a liability should be recognized for the unsatisfied portion of the performance obligation when consideration transferred for the building, acquisition, improvement or refurbishment of infrastructure is the right to charge users or earn revenue from another revenue-generating asset? If not, where should the credit entry be presented when no obligation to deliver cash exists?

6. Do you believe additional guidance is required where consideration for the building, acquisition, improvement or refurbishment of infrastructure is a non-financial public sector asset (for example, land). If yes, please provide examples of consideration types not considered.

7. Do you agree the initial measurement of the infrastructure and the liability should be at cost? If not, what alternative is more appropriate and why?

8. Do you agree existing infrastructure, improved or refurbished using a public private partnership, should be measured at its carrying amount plus costs associated with the improvement or refurbishment of the existing infrastructure? If not, what alternative is more appropriate and why?

9. Do you agree with the discount rate guidance as provided in the Statement of Principles? If not, why? Please provide commentary.

10. Do you agree the obligation created by non-financial consideration should be reduced and recognized as revenue when the performance obligation is satisfied? If not, where should the balancing entry be recorded when the performance obligation is satisfied?

11. Does the structure of consideration transferred in public private partnerships – which may include consideration for betterments, maintenance, operations, etc. – require specific guidance in addition to the Statement of Principles proposals? If yes, what additional guidance is necessary? Please provide examples.

12. Do you agree with the disclosure requirements? If you do not agree, what changes, deletions or additions would you make to these requirements, and why?

13. Are there additional matters requiring consideration?

# Public Private Partnerships

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# BACKGROUND

.01 Public private partnerships are an accepted method to deliver infrastructure projects in Canada. Canadian jurisdictions have over 250 projects representing more than $100 billion in capital investment — including highways, bridges, light rail transit, hospitals, schools and water-treatment facilities.

.02 Stakeholders identified the need for an accounting standard that considers the unique aspects of the public private partnership model as one of the primary issues in PSAB's 2014 Project Priority Survey.

.03 Historically, governments have built and operated infrastructure directly, managing the risk associated with project delivery. This method of procurement is typically referred to as "traditional procurement".[1]

.04 Public private partnerships are an alternative finance and procurement model available to public sector entities to build, acquire, improve or refurbish infrastructure. They include public private partnerships:

(a) between a public sector entity and a private sector entity for infrastructure-project delivery;

(b) with an allocation of responsibilities for, and risks of, the infrastructure; and

(c) with private capital at risk.

.05 Various public private partnership delivery models exist, depending on the nature and extent of private sector participation. Each model involves the private sector in various phases of the project, such as design (D), build (B), finance (F), operate (O) and maintain (M). These varying forms have given rise to the acronyms often used in relation to public private partnerships, such as DBF, DBFM and DBFOM.

## The need for a standard

.06 TANGIBLE CAPITAL ASSETS, Section PS 3150, establishes requirements for tangible capital assets acquired, constructed, improved or refurbished by public sector entities. As such, guidance exists in the CPA Canada Public Sector Accounting (PSA) Handbook for delivery models where a private sector entity's involvement in the public private partnership ends on completion of the infrastructure. This is the case when the public private partnership's delivery model is design-build-finance.

.07 However, additional guidance is required when the terms of the public private partnership require the private sector entity to maintain and/or operate the infrastructure. This is because existing guidance in TANGIBLE CAPITAL ASSETS, Section PS 3150, does not address public private partnerships where the private sector entity manages the infrastructure that it has constructed, nor does it establish adequate measurement or disclosure requirements when such public private partnerships are financed over a long term.

.08 Without a standard, preparers and auditors must rely on GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150, which requires the use of professional judgment when selecting an appropriate accounting policy. Although the principles developed in this Statement of Principles are consistent with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, GOVERNMENT PARTNERSHIPS, Section PS 3060, LIABILITIES, Section PS 3200, ASSETS, Section PS 3210,

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1 A traditional procurement includes "design-bid-build", where a government prepares detailed asset design specifications and tenders its construction to a contractor. In doing so, a government will usually retain responsibility for design flaws, financing, and cost and/or schedule overruns.

and FINANCIAL INSTRUMENTS, Section PS 3450, establishing guidance specific to public private partnerships with a maintain and/or operate component will reduce diversity in practice among public sector entities when recognizing and measuring infrastructure procured through a public private partnership and accounting for the associated credit entry.

.09 Because of the lack of guidance, the Public Sector Accounting Board concluded that developing a standard for certain public private partnerships is worthwhile.

## Intended outcomes and expected effects

.10 The intended outcome of a new standard is to improve the information available for the financial statement users regarding infrastructure and any related liability within the scope.

.11 The expected effects of developing this standard are:

(a) a faithful representation and consistent accounting treatment across Canadian public sector jurisdictions;

(b) a more comprehensive reporting of public private partnerships than currently required under existing Public Sector Accounting Standards;

(c) enhanced comparability of financial statements amongst public sector entities;

(d) consistency in accounting for infrastructure acquired through traditional or public private partnership procurement methods;

(e) better information than currently required under existing Public Sector Accounting Standards for user assessments of future revenue requirements of a public sector entity; and

(f) additional guidance for measurement of items.

.12 The proposals create a need for public sector entities to:

(a) review agreements, contracts, legislation, etc. to identify infrastructure;

(b) assess whether existing infrastructure meets the recognition criteria;

(c) determine whether there are unrecorded liabilities;

(d) measure the cost of the infrastructure asset and liability;

(e) transition existing balances to the new requirements; and

(f) assess the adequacy of existing disclosure and presentation practices.

## Approach of this Statement of Principles

.13 In addressing one of the central accounting issues to public private partnerships — which party to the public private partnership should capitalize the infrastructure — existing guidance in ASSETS, Section PS 3210, would apply. Section PS 3210 requires an asset to be recognized when economic resources are controlled by a public sector entity as a result of a past transaction from which future economic benefits are expected to be obtained. Since the assets framework requires control to be considered when evaluating whether an asset is recognized, this Statement of Principles also adopts a control approach.

.14 In determining whether a liability should be recognized, existing guidance in LIABILITIES, Section PS 3200, would apply. This ensured a range of consideration types associated with infrastructure — including those non-financial in nature — were considered when evaluating recognition in the statement of financial position.

## PURPOSE AND SCOPE

.15 The purpose of this Statement of Principles is to explain, and seek stakeholder feedback on, the proposed principles on how to account for and report certain types of public private partnerships. Specifically, it:

(a) defines which public private partnerships are within its scope;

(b) clarifies the application of asset-recognition criteria to infrastructure and how infrastructure should be measured;

(c) establishes how to measure and how to account for the credit entry associated with infrastructure; and

(d) provides related financial statement presentation and disclosure requirements.

.16 This proposal provides guidance when accounting for public private partnerships between public and private sector entities where the public sector entity procures infrastructure using a private partner whose obligations include a requirement to:

(a) build, acquire, improve or refurbish;

(b) finance; and

(c) maintain and/or operate the infrastructure.

.17 Public private partnerships require clarification in accounting for the transaction because existing guidance in TANGIBLE CAPITAL ASSETS, Section PS 3150, is insufficient to:

(a) evaluate which party to the public private partnerships controls the infrastructure when the private sector entity operates and/or maintains the asset; and

(b) address the complexities in measuring the infrastructure due to the long-term nature of most public private partnerships.

.18 This proposal does not apply to:

(a) impairment of infrastructure, which is covered in TANGIBLE CAPITAL ASSETS, Section PS 3150.

## APPLICABILITY

.19 Having the same reporting requirements for all public sector entities following the PSA Handbook enhances the comparability and consistency of financial reporting within the public sector. This Statement of Principles proposes all public sector entities (other than those that are directed to or comply with the standards applicable to publicly accountable enterprises in Part I of the CPA Canada Handbook – Accounting) would apply this standard when preparing their general purpose financial statements.

## RECOGNITION OF INFRASTRUCTURE

.20 The proposed recognition guidance provides clarification in applying the control criteria set out in ASSETS, Section PS 3210.

.21 ASSETS, Section PS 3210, indicates an asset has three characteristics:

(a) It embodies future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows.

(b) The public sector entity can control the economic resource and access to the future economic benefit.

(c) The transaction or event giving rise to the public sector entity's control has already occurred.

.22 In the context of public private partnerships, criteria in paragraph 21(a) and (c) are straightforward to evaluate:

(a) Future economic benefit — Infrastructure by definition provides goods or services for public consumption (for example, a hospital building provides health-care services to citizens). This represents a future economic benefit to the public sector entity.

(c) Past transaction — Various transactions or events occur as part of the public private partnership that can give rise to control of the infrastructure — entering into the public private partnership, signing the contract, the construction period, etc. Based on the terms of the public private partnership, the public sector entity should evaluate which transaction or event gives rise to control.

.23 Additional interpretative guidance is necessary for public private partnerships because establishing which entity controls the economic benefits of infrastructure — asset-recognition criterion (b) — is challenging when infrastructure is operated and/or maintained by the private sector entity.

.24 Existing control guidance in ASSETS, Section PS 3210, requires the entity to be:

(a) able to benefit from the economic resource through its capacity to provide goods and services, to provide future cash inflows or reduce cash outflows;

(b) able to deny or regulate access to those benefits by others; and

(c) exposed to the risks associated with the economic resource.

.25 This Statement of Principles seeks to apply the existing control criteria in ASSETS, Section PS 3210, to public private partnerships.

**Principle 1**

The public sector entity should recognize infrastructure, or a refurbishment or improvement to infrastructure, if by the terms of the public private partnership the public sector entity controls:

(a) the purpose and use of the infrastructure;

(b) access to the infrastructure and the price, if any, the private sector entity can charge to provide an associated service; and

(c) any significant residual interest in the infrastructure at the end of the public private partnership's term.

.26 FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.55, sets out the criteria for when an asset should be recognized. Recognition occurs when:

(a) the item has an appropriate basis of measurement and a reasonable estimate can be made about the amount involved; and

(b) for an item that involves obtaining or giving up economic benefits, it is expected that such benefits will be obtained or given up.

.27 Together with the specific terms of the public private partnership, those criteria are considered in determining whether to recognize infrastructure during the period in which the asset is constructed or refurbished. Typically, the recognition criteria are achieved during the construction period. When this occurs, the public sector entity recognizes the infrastructure during that period.

## Purpose and use

.28 The first criterion in Principle 1 requires the public sector entity to be able to control the purpose and use of the infrastructure.

.29 Controlling the purpose and use of the infrastructure allows the public sector entity to determine what the infrastructure will be used for and what services it will provide. The assessment of this control considers the public private partnership as a whole. For example, when the private sector entity is engaged to build and maintain a building, the public sector entity controls the purpose and use of the building by requiring it to be a hospital and to be used for the delivery of public health-care services.

.30 Controlling the purpose and use of the infrastructure allows the public sector entity to benefit from the economic resource through its capacity to provide goods and services. This satisfies the control criterion in ASSETS, paragraph PS 3210.16(a), to benefit from the economic resource.

## Access and pricing

.31 Controlling infrastructure access and service pricing satisfies the control criterion in ASSETS, paragraph PS 3210.16(b), to deny or regulate access to those benefits by others.

.32 Controlling access to the infrastructure includes preventing other parties from accessing the future economic benefits the infrastructure generates. For example, the public sector entity can control access to student residence by requiring tenants attend the institution to which it is attached. In other situations (for example, a hospital), the public sector entity may not discriminate who can access the infrastructure. Allowing access to all also indicates the public sector entity's control.

.33 In some cases, the private sector entity is granted the right to earn revenue from the infrastructure users by charging them a fee. The public sector entity's control of service pricing allows it to determine who will benefit from the economic benefits generated by the infrastructure. Not charging a fee also indicates the entity's control.

.34 The public sector entity does not need to have complete control of the price. It is sufficient for the price to be governed by a binding agreement. For example, the public sector entity may be required to approve annual price increases or may set a price ceiling.

.35 A public sector entity's regulation of an economic resource does not, in and of itself, constitute control of an asset. A public sector entity may establish the regulatory environment in an industry or sector in which organizations operate and impose conditions or sanctions on its operations, which does not indicate control. For example, a pollution-control authority may close down the entities' operations that do not comply with environmental regulations. However, this power does not constitute control because the authority's interest extends only to the regulatory use of the economic resources and does not include controlled access to the future economic benefits.

## Residual interest

.36 Control of significant residual interest, if any, satisfies the control criterion in ASSETS, paragraph PS 3210.16(c), exposure to the risks associated with the economic resource.

.37 Public private partnerships require the private sector entity maintain and/or operate the infrastructure. While this transfers risks to the private sector entity during the public private partnership's term, the public sector entity continues to be exposed to risks associated with the residual interest at the end of the term. Other risks existing during the term ultimately drive the infrastructure's residual interest. Risk of change in residual interest represents a risk associated with the economic resource and should be considered when evaluating control.

.38 In effect, the public sector entity's control over any significant residual interest restricts the entity's practicable ability to sell or pledge the asset.

# RECOGNITION OF A LIABILITY

.39 In exchange for infrastructure, the public sector entity transfers consideration to the private sector entity through any combination of the following:

(a) cash or other financial assets (a financial consideration); or

(b) granting the private sector entity other rights (a non-financial consideration).

.40 Regardless of the nature of the consideration, the public sector entity has an obligation to compensate the private sector entity for the infrastructure's delivery. Recognition of a liability is based on the characteristics of the consideration in the public private partnership.

## Financial consideration

**Principle 2**

When the public sector entity has an obligation to pay cash or deliver another financial asset to the private sector entity for the building, acquisition, improvement or refurbishment of the infrastructure, the public sector entity should recognize a liability.

.41 Common forms of financial consideration that create a liability for the public sector entity include:

(a) cash payments directly attributable to the construction, acquisition, improvement or refurbishment of the infrastructure that may be embedded in unitary payments where the consideration for the infrastructure and its operations and/or maintenance may be aggregated; and

(b) a guarantee of cash shortfalls between amounts collected by the private sector entity from infrastructure users and an amount determinable in the binding public private partnership.

.42 When the public sector entity has an obligation to transfer cash or another financial asset in exchange for infrastructure, the definition of a liability as defined in LIABILITIES, Section PS 3200, is satisfied.

.43 LIABILITIES, Section PS 3200, indicates liabilities have three essential characteristics:

(a) They are present obligations — The terms of the public private partnership create an obligation for the public sector entity to deliver cash or another financial asset. The public sector entity cannot avoid this obligation.

(b) They result in the future sacrifice of economic benefits — The public private partnership's terms require the public sector entity deliver cash or another financial asset to the private sector entity. Settlement in cash or another financial asset results in the reduction in economic resources available to the public sector entity.

(c) They arise from a past transaction — Various transactions or events occur as part of the public private partnership that can give rise to the obligation — entering into the public private partnership, signing the contract, the construction period, etc. Based on the public private partnership's terms, the public sector entity should evaluate which transaction or event gives rise to the obligation.

## Non-financial consideration

.44 In exchange for the building, acquisition, improvement or refurbishment of infrastructure, the public sector entity may transfer other rights to the private sector entity. These rights often take the form of:

(a) earning revenue from third-party users of the infrastructure (for example, a toll bridge); or

(b) accessing another revenue-generating public sector entity asset for the private sector entity's use (for example, a private wing of a hospital where the remainder of the hospital is used by the public sector entity to treat public patients).

.45 When the public sector entity grants the private sector entity the right to earn revenue from third-party users as consideration, the public sector entity should evaluate whether it has a performance obligation associated with the granting of those rights.

.46 A performance obligation is created through an exchange transaction. It is an enforceable promise to deliver goods or services to a counterparty.

.47 Allowing the private sector entity to access the infrastructure is generally necessary in order for the private sector entity to earn revenue from the third-party users. For example, in order for an entity to collect a toll when users cross a bridge, the entity must access the bridge, tolling stations, databases, etc. to fulfil its responsibilities.

.48 Providing ongoing access to infrastructure meets the definition of a liability because LIABILITIES, Section PS 3200, indicates liabilities have three essential characteristics:

(a) They are present obligations — The terms of the public private partnership require the public sector entity to provide the private sector entity ongoing access to the infrastructure in order to earn revenue from third-party users.

(b) They result in the future sacrifice of economic benefits — In addition to giving up the public sector entity's ability to collect revenues from infrastructure users, the obligation to provide access to the private sector entity requires the public sector entity stand ready to protect the private sector entity's right to earn revenue from the third-party users. This can take various forms. Some may include:

(i) enforcing a payment by third-party users;

(ii) enforcing exclusive access to the private sector entity; and

(iii) protecting the rights of the private sector entity;

(c) They arise from a past transaction — Various transactions or events occur as part of the public private partnership that can give rise to the obligation — entering into the public private partnership, signing the contract, the construction period, etc. Based on the terms of the public private partnership, the public sector entity should evaluate which transaction or event gives rise to the obligation.

> **Principle 3**
>
> When the public sector entity transfers to the private sector entity the right to earn revenue from third-party users or from another revenue-generating asset as consideration for the building, acquisition, improvement or refurbishment of the infrastructure, the public sector entity should recognize a liability for the unsatisfied portion of the performance obligation associated with that consideration.

.49 The public sector entity would recognize revenue and reduce the liability as the performance obligation is satisfied according to the economic substance of the public private partnership (REVENUE, [proposed] Section PS 3400).

## Combined consideration

.50 A public sector entity's liability for the building, acquisition, improvement or refurbishment of infrastructure could result from a combination of financial consideration and non-financial consideration. The public sector entity should follow guidance in paragraphs 41-49 applicable to each component of the liability.

# INITIAL MEASUREMENT

## Infrastructure

*Constructed or acquired infrastructure*

.51 Existing guidance in TANGIBLE CAPITAL ASSETS, Section PS 3150, requires tangible capital assets be measured at cost.

> **Principle 4**
>
> Constructed or acquired infrastructure should be recorded at its cost to the public sector entity.

.52 The cost of the infrastructure includes the capital cost of the infrastructure and other acquisition costs (such as installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, and duties). The cost of a constructed infrastructure would normally include direct construction or development costs (such as material and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare infrastructure for its intended use encompass more than the physical construction of the infrastructure. The activities include the technical and administrative work prior to the commencement of and during construction.

.53 Determining the cost of the infrastructure may require the public sector entity to apply a discounted cash flow technique. This is because, assuming performance, the public private partnership includes a commitment to deliver an expected stream of cash flow over the term of the partnership. Included in the stream of cash flow is an amount owing for the capital portion of the infrastructure.

.54 Where the capital and operations and/or maintenance components of the payments to the private sector entity require bifurcation to determine the cost of infrastructure, allocation is determined using estimation techniques.

.55 In rare circumstances where expected cash flows are irrelevant in determining the cost of the infrastructure at initial recognition — such as may be the case when consideration is non-financial in nature — the public sector entity would calculate the cost of the infrastructure by applying an appropriate estimation technique.

*Existing infrastructure*

.56 In some public private partnerships, the private sector entity is engaged to refurbish and subsequently maintain and/or operate infrastructure owned by the public sector entity. Capital costs associated with the refurbishment of the existing infrastructure are added to the carrying value, less impairment, if any, as required in TANGIBLE CAPITAL ASSETS, Section PS 3150.

## Liability

**Principle 5**

The liability recognized should be initially measured at the same amount as the infrastructure, reduced for any consideration previously transferred.

.57 In arm's-length transactions, the consideration transferred is equal to the value of the good or service received. When a liability is created as a result of financial or non-financial consideration, the liability equals the value of the good or service, less any consideration previously transferred.

.58 Additional consideration attributable to other components of the public private partnership (such as maintenance and operational payments) are excluded from the measurement of the liability.

## Discount rate

.59 When applying a discounted cash flow technique, cost is measured by discounting the expected cash flows using a discount rate that comprises the time value of money and the risks specific to the infrastructure and liability, unless the cash flows are adjusted for the risks. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan. That same rate should not be used if using expected cash flows because the expected cash flows already incorporate assumptions about the uncertainty in future defaults.

.60 The assumptions applied in the expected cash flows and discount rate should be internally consistent. For example, if the cash flows include the effect of expected inflation, then the discount rate also incorporates inflation expectations.

.61 In circumstances where a discount rate cannot be observed directly from the market, it will generally be necessary to develop a discount rate that appropriately reflects the risks associated with the cash flows of the infrastructure or liability being measured.

# SUBSEQUENT MEASURMENT

## Infrastructure

.62 Infrastructure generates economic benefit to its users over its useful life. The cost associated with the infrastructure should be expensed over the period the economic benefit is generated in a rational and systematic manner.

.63 TANGIBLE CAPITAL ASSETS, Section PS 3150, would apply when accounting for infrastructure in periods subsequent to the initial recognition.

.64 Betterments, as defined in TANGIBLE CAPITAL ASSETS, Section PS 3150, are added to the carrying amount of the related infrastructure when the future economic benefits are controlled by the public sector entity.

## Liability

.65 The primary difference between financial and non-financial consideration is how the associated liability is settled. Liabilities associated with financial consideration are settled when the public sector entity delivers cash or another financial asset. Liabilities associated with non-financial consideration are satisfied as the public sector entity fulfils its performance obligation under the public private partnership.

*Financial consideration*

.66 To extinguish all or a portion of a liability associated with financial consideration, the public sector entity must:

(a) discharge the liability by paying the private sector entity cash or delivering another financial asset; or

(b) be legally released from its responsibility for the liability either by law or the private sector entity.

.67 Liabilities associated with financial consideration are likely satisfied through the delivery of cash or another financial asset to the private sector entity. The liability is reduced as payments are made.

.68 The public sector entity should allocate transfers of cash or other financial assets to repayments of the liability, interest expense, charges for operations and maintenance services provided by the private sector entity, etc. according to their substance.

.69 Interest charges and charges for services provided by the private sector entity in the public private partnership are accounted for as expenses in the period to which they relate.

*Non-financial consideration*

.70 When a performance obligation exists as part of granting rights to the private sector entity, the liability is reduced and revenue is recognized in a rational and systematic method in accordance with the economic substance of the public private partnership.

.71 In determining when the performance obligation is satisfied, guidance in REVENUE, [proposed] Section PS 3400, would apply.

**Principle 6**

When the public sector entity recognizes a liability as part of granting the private sector entity, the right to earn revenue from third-party users or from another revenue-generating asset, revenue should be recognized and the liability reduced according to the economic substance of the public private partnership.

## Modifications to contractual terms and takeover rights

.72 Modifications during the life of the public private partnership occur based on events and circumstances unique to each public private partnership. Modifications are accounted for when the event occurs depending on the facts and circumstances of each scenario.

# PRESENTATION AND DISCLOSURE

.73 Because of the complex, long-term nature of public private partnerships and the professional judgment required in the measurement of the infrastructure asset and liability, it is important to provide financial statements users with information explaining the basis of the calculation and its key inputs.

.74 A clear and concise description of the accounting policy for the public private partnership would be included in the notes to the financial statements. The description of the accounting policy is necessary for users' interpretation of the public sector entity's financial statements.

.75 The notes to the financial statements would also disclose the basis of recognition and measurement of the infrastructure asset and liability. When a discounted cash flow or another estimation technique is used, the key assumptions, such as the estimated total undiscounted cash flows, discount rate and time period, are disclosed.

.76 These disclosures should be made individually for each public private partnership that is material to the reporting entity. Non-material public private partnerships are aggregated as appropriate.

**Principle 7**

In addition to the disclosure requirements of TANGIBLE CAPITAL ASSETS, Section PS 3150, a public sector entity should disclose the following information:

(a) a description of the public private partnership including the delivery model;

(b) significant terms of the partnership affecting the amount, timing and certainty of expected cash flows including:

  (i) the period of the public private partnership;

  (ii) the amount of the capital obligation related to the building, acquiring, improving or refurbishment of the infrastructure;

  (iii) the interest paid or payable for the period related to the obligation described in (ii);

  (iv) the discount rate related to the obligation described in (ii);

  (v) the aggregate amount of capital payments estimated to be required in each of the next five years and thereafter, including any minimum revenue guarantees; and

  (vi) the aggregate amount of operating and/or maintenance payments estimated to be required in each of the next five years and thereafter, including any minimum revenue guarantees;

(c) significant changes in the partnership occurring during the reporting period; and

(d) significant inputs applied in determining the cost of the infrastructure.