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Draft Accounting Standards Raise Thorny Questions About Accounting for P3 Risks.

A draft document issued by the Federal Accounting Standards Advisory Board (FASAB) calling for greater disclosure of risks associated with P3s by federal agencies raises a number of challenging questions according to a column published this week in The Wall Street Journal's Risk and Compliance Journal.

Risk disclosure for P3s is necessary to help financial statement users understand how taxpayer assets are used and what risks have been taken into account, according to the draft standards. Currently, there is no common reporting standard that would allow a financial statement user to compare them across agencies.

FASAB staffers suggested the kinds of risks that should be disclosed include the costs to oversee P3s, legacy costs, and remote or unlikely risks should be accounted for when turning to the private sector.

"The exposure draft, as applied, would have a chilling effect on sensible risk transfer initiatives within government," Christopher Voyce, senior managing director at Macquarie Capital, said. "My concern about the exposure draft is it treats P3 as a financing decision that doesn't transfer risk."

The problem is that there is no way to account for the benefit a P3 provides by shifting the risk of meeting deadlines and quality standards to the private partner, Voyce explained.

In some circumstances, disclosure of remote risks might be appropriate, depending on the harm that could result from the risk, said Anita Molino, president of Bostonia Partners LLC, and chairman of NCPPP.

At the same time, Molino said, "I don't know how a government accounting officer could, at the start of a relationship, think through what the business risks might be and would they be important enough to be disclosed. In my mind it's way too subjective unless there's something pretty obvious in the relationship."

NCPPP

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