
Risk Disclosure for Public-Private Partnerships Under Scrutiny.

Public-private partnership (P3) risks are on the agenda of the Federal Accounting Standards Advisory Board, which sets financial reporting standards for the federal government. An exposure draft issued in October called for more disclosure of the risk of deals where the government turns to the private sector to provide infrastructure, goods and services. Comments on the draft closed in January.

In conversations with Risk & Compliance Journal, FASAB staff have pointed to the increasing use of P3 arrangements, and their complexity, as sources of undisclosed risk. The complexity begins with the very definition of a public-private partnership, a task so elusive that rather than provide a definition, the draft provides a matrix of factors to determine whether disclosure is appropriate. Risks to be addressed, the staff suggested, might include costs of overseeing the P3, legacy costs such as the human resource expenditure for employees whose functions are transferred to the private sector, and even "remote" or unlikely risks.

The exposure draft points out that better disclosure is necessary to help financial statement users understand how taxpayer assets are used and what risks are being incurred in P3 deals. Although public-private partnerships are increasingly the resort of government agencies trying to make the most of scarce budget resources, there is no common reporting standard that would allow a financial statement user to compare them across agencies.

For example, the Forest Service's 2014 budget justification described a new program to "develop public-private partnerships to reduce risks to communities in fire-prone landscapes; to protect public service utilities and enhance water quality in municipal watersheds; and to maintain and restore the resilience of aquatic ecosystems " However, disclosure is limited. Steve Lohr, director of partnerships for the Forest Service, said in an interview, "Currently there is no broader framework for reporting than what our agency requires."

Some industry participants have concerns about the new disclosure requirements, though.

"The exposure draft, as applied, would have a chilling effect on sensible risk transfer initiatives within government," said Christopher Voyce, senior managing director at Macquarie Capital, which advises on and arranges financing for public-private partnerships. "My concern about the exposure draft is it treats P-3 as a financing decision that doesn't transfer risk," he said.

Mr. Voyce noted for example that when a government agency builds and operates something on its own, such as a hospital, it bears all of the risk associated with the project. The same hospital built and operated in a P3 arrangement might well require the private partner to bear the risk of meeting deadlines and quality standards, and reduce the cost to the agency if the private partner didn't deliver on commitments.

Such risk transfer has value that the accounting treatment does not reflect, and Mr. Voyce said that without full accounting for the benefit of the arrangement, P3 would effectively be handicapped in a comparison with other structures.

Another point at issue is the draft's treatment of those "remote" risks that, while unlikely to materialize, could have high impact if they did. "Disclosure of remote risks is the biggest dilemma," said Wendy M. Payne, executive director of the FASAB. According to the draft, "The Board believes that significant P3 risks, including those that may be deemed remote should be disclosed."

Anita Molino, president of Bostonia Partners LLC, and chairman of the National Council for Public-Private Partnerships, concurred that, in some circumstances, disclosure of remote risks might be appropriate, depending on the harm that could result from the risk. However, she 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."

She said she supports an alternative view discussed in the Exposure Draft, narrowing the scope of the definition and reducing the disclosure requirements.

In issuing a standard for P3, the FASAB is following the state and local government accounting standard setter, the Governmental Accounting Standards Board, which in 2010 issued a standard for a specific form of public-private partnership, the service concession, but excluded all others, such as construction of infrastructure. A spokesman for the GASB told Risk & Compliance Journal, "There is nothing broader underway."

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