

11:15 - 12:30 - Panel 9 - Marly

“French Government Assets”



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Accounting for Concession Contracts and Recent Developments in France

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A pending accounting issue

- Public companies still waiting for the final interpretation from IFRIC on concession service contracts (drafts published in March 2005)
- Major pending IFRS issues for corporates (such as Vinci, Veolia, Suez, Bouygues)
- However the outcome of the IFRIC thinking is now more or less known
- Final interpretation expected before the end of 2006

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The Two Accounting Treatments

- Two accounting treatments will be applied depending on who pays the private operator:
 - if the users pay the operator, the cost for building the infrastructures is accounted for as an intangible asset
 - if the operator is paid by the public authority which has granted the contract, the operator's asset is a financial asset

The Intangible asset model

- the intangible asset is depreciated over the term of the contract
- the outcome of the construction activity as per the concession contract is an exchange at the end of the construction period :
 - the new infrastructures are given to the public authority
 - the operator obtains the right to operate the infrastructures according to the contract
- the operator is loss-making at the beginning of the contract, and in a profit situation afterwards

The Financial Asset model

- The construction activity of the operator and the subsequent services generate a right to the cash flows to be paid by the public authority
- The discounted cash flows are accounted for as a financial asset
- This financial asset generates interest income and is reduced when the cash flows are received
- The income statement of the operator is similar to the income statement of a bank

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The Main Topics Recently Discussed by IFRIC (1/2)

The selection of the accounting model

- The selection criteria should be based on the demand risk: the operator applies the intangible assets model only if it bears the demand risk whoever pays

The financial asset model

- The accounting for repairs and renewals

The Main Topics Recently Discussed by IFRIC (2/2)

The intangible asset model

- The concept of exchange and the recognition of an income when it occurs
- The depreciation method
- The liability derived from the commitment to build additional infrastructures

Recent Developments in France

- Development of a new legal structure « PPP » similar to the PFI
- The financial asset model would apply in most cases to this new structure
- Negative background : the use of the financial asset model will imply that the public authority recognizes a liability

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