

**CONFERENCE ON THE ECONOMICS OF AIRPORTS AND
AIR NAVIGATION SERVICES**

(Montreal, 19 - 28 June 2000)

Agenda Item 5.2: Elements for consideration with regard to ICAO policy

**ICAO GUIDELINES AND INTERNATIONAL ACCOUNTING STANDARDS
AN INVESTOR'S VIEW**

(Presented by Switzerland)

SUMMARY

Commercialised airports and air navigation services are increasingly being affected by the policies of private investors. Consequently the financing of service provider infrastructure is subject to new requirements. The purpose of this paper is to invite ICAO to actively call for the development of accounting guidelines to act as industrial standards.

1. Summary

1.1 As the world-wide liberalisation process continues its course within the aviation business, service providers – especially airports and air navigation services – are being strongly affected by the progressive trend towards privatization and commercialization. Accordingly, future investments are increasingly being affected by the policies of private investors. As a result, the financing of airport infrastructures is subject to new requirements.

1.2 At present the existing ICAO guidelines (e.g. Doc. 9082/5 Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services, Doc. 9562 Airport Economics Manual, Doc. 9161/3 Manual on Air Navigation services economics) are the only provisions that define financial and economic rules for service providers and are acknowledged world-wide.

1.3 The relevant ICAO regulations should identify International Accounting Standards (IAS) and US General Accepted Accounting Principles (US GAAP) as techniques to be used as a mean of ensuring effective exploitation of international capital markets for privatized or semi-privatized airports, which in turn will bring about an improvement of their economic base.

1.4 In the present paper ICAO provisions are scrutinized with respect to accounting issues and considers the requirements from the private investor's viewpoint.

1.5 Proposals are submitted concerning the completion/amendment of the relevant ICAO statements/recommendations and, where necessary, their interpretation. In addition it is proposed that ICAO actively call for the development of accounting guidelines to act as industrial standards.

2. Background

2.1 Forecasts published by recognised organisations point to a global increase in air traffic. This is giving rise in many states to the need to modernise or expand civil aviation infrastructures. In many contracting states the civil aviation sector is extensively liberalised, with the resultant open market acting a key driver of civil aviation growth. Liberalisation created the conditions for competitive pressure, which is increasingly being passed on from airlines to service providers such as airports and air navigation organisations. This competitive environment is leading to increased price pressures on the part of users (e.g. airlines) vis-à-vis providers (e.g. airports, air navigation services). Furthermore, addressing this foreseen growth in civil aviation entails the generally capital-intensive expansion of airport and air navigation facilities, as well as replacement costs. States which are forced to finance their capital requirements for civil aviation infrastructure investment against a background of increased competitiveness are often torn between price pressure and investment needs.

2.2 There is a global tendency to hand the financing and the management of both the airport and the air navigation infrastructure over to the private sector. In line with this, private financing options for investments in civil aviation infrastructures are being sought. Such funds are in demand on the international and globalized capital markets. In these highly efficient capital markets, professional methods are used to analyse and assess the potential yield and market/business risks. In turn, this is increasing the requirements for accounting transparency on the part of service providers seeking capital. One of the key requirements is the ability to subject a company's past annual financial statements to a detailed comparative analysis, in order to derive meaningful financial key figures from the year-end accounts.

3. Objectives

3.1 Within the framework of ICAO guidelines for airports and air navigation organisations, the use of international accounting principles (US GAAP – Generally Accepted Accounting Principles - or IAS - International Accounting Standards) is to be encouraged where airports and air navigation services seek access to international capital markets.

3.2 Transparency for investors according to the requirements of most stock exchange organisations world-wide is the key to facilitate the access to the capital market and consequently for more favourable conditions for loans and equity. Airport and air navigation are to be considered as big business with important investments and capital needs to finance their future projects. The mode of acquisition and the conditions imposed regarding the financial resources therefore can influence the results of the service providers quite considerably.

4. The advantages of accounting according to US GAAP or IAS

4.1 The role of ICAO in the matter of international accounting principles

4.1.1 Many airports and air navigation organisations are partly or (in the case of a few) fully privatized public-law institutions. They generally draw up their accounts and financial reports according to the prevailing accounting principles in their state. This obscures comparability and transparency, which in turn impedes access to the international capital market and also dialogue with the users.

4.1.2 To address this fundamental incompatibility in accounting, it would be advantageous if ICAO were to encourage adoption of a few globally recognized and accepted accounting standards, primarily the US GAAP and IAS.

4.2 Development of the IAS

4.2.1 IAS accounting methods:

- have evolved over the past four years to become a comprehensive code of practice which is increasingly being implemented throughout the world;
- are being incorporated in the nation-wide state accounting standards of many countries; and
- are regarded in many stock exchanges throughout the world as equivalent to national and/or regional standards.

IASC¹ is currently working on obtaining approval from the IOSCO² for a generally accepted accounting standard governing cross-border capital acquisition and stock exchange quotation. The importance of the US GAAP

The same applies to the US GAAP, which are primarily applied selectively by stock exchange quoted companies (finance, banking and insurance sectors) in the USA, Canada and various other countries. While the US GAAP are even more comprehensive than the IAS, the IAS are gradually approximating the US GAAP requirements.

¹ International Accounting Standards Committee in London.

² International Organisation of Securities Commissions

5. Universal airport and air navigation service accounting methods from investor's and other stakeholders' viewpoints

5.1 The benefits of applying internationally accepted standards for airports

If, apart from external financial reporting, the aim is to draw up all accounts on a comparable and transparent basis for management information and management purposes as well as to provide a basis for determining airport tax costs and for charging specific services, the application of a unified, generally comprehensible accounting standard offers major advantages. These standards are consistently based on business criteria, for example no cash basis accounting and no annualising methods permitted for write-downs of property, plant and equipment, revaluation of real estate only according to clear guidelines and subject to strict disclosure criteria, etc. Clear guidelines address the information requirements of the capital market and of users.

The application of a unified, generally accepted standard enhances the comparability of airport and air navigation service financial statements and hence also facilitates intracompany comparisons. Intracompany comparisons are supported in particular by both aforementioned standards under the requirements for segment reporting, whereby companies must disclose the results achieved by individual segments.

5.2 Accounting standards as a communications medium

5.2.1 Nowadays it is generally acknowledged that annual financial statements drawn up according to IAS or US GAAP enjoy far greater acceptance on the capital market than other accounting methods, and consequently impact capital procurement costs more positively. The potentiality of gaining profit by creating favourable conditions on the capital markets by applying IAS and/or US GAAP exceeds the costs of the implementation of such accounting systems. Moreover, the universal application of accounting standards would be of major benefit to users (airlines) since the setting of charges could be discussed on a unified platform. In many countries state departments act as the regulator. Universal standards would also be advantageous for these authorities (as a rule, national aviation offices) in assessing the financial situation and hence also for evaluating charges.

6. The role of ICAO

6.1 In the interests of a prosperous and cost-effective evolution of civil aviation as well as in view of the previously mentioned commercialisation of civil aviation infrastructure organisations, ICAO should examine the sector-specific aspects of accounting and issue its own recommendations. ICAO could be instrumental in having these sector-specific criteria incorporated in the accounting standards.

6.1.1 This could be done firstly

- by recommending the application of accounting standards such as the IAS or US GAAP (or any other generally recognized standards) and secondly,
- by supporting the implementation of an industry standard for airports and air navigation organisations based on general accounting standards, after co-ordination with other organisations of the UN, e.g. WTO.

6.1.2 On the second point, it should be noted that provided compatibility with the selected accounting standard is assured, a sector-specific financial reporting system could absolutely reflect the needs and characteristics of the airport and air navigation sector. For instance, for airports it would mean that aviation and non-aviation business is distinguished under segment reporting, and the associated cost allocations would be expressed in reporting for external purposes. The main objective is true and fair reporting for investors, users and the public.

6.1.3 To date IASC has issued no industry standards. However, work on such standards is in progress (agriculture). The aim would be to enable ICAO, after thorough examination of the applicability of the IAS and US GAAP to the sector, to mount a strong campaign with the relevant organisations to ensure that the needs of the airport and air navigation sectors are addressed.

7. Recommendations for adaptation of ICAO guidelines

7.1 Switzerland proposes that ICAO encourages the application of internationally accepted accounting standards for airports and air navigation services which draw up their own financial statements. Doc 9082/5 (*Statements by the Council to Contracting States on Charges for Airports and Air Navigation Services*) or Doc 9161/3 (*Manual on Air Navigation Services Economics*) and Doc 9562 (*Airport Economics Manual*) should be extended accordingly.

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