Federal Accounting Standards Advisory Board

June 10, 2014

Memorandum

To: Members of the Board

From: Domenic N. Savini, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: **Public-Private Partnerships: Disclosure Requirements – Tab G**[1]

MEETING OBJECTIVES

The objective for the June 2014 meeting is to **review a revised draft Exposure Draft (ED)** prepared based upon (1) guidance received from members during the April 2014 meeting and (2) a task force review of April's draft ED **so that staff can either (1) begin pre-balloting** procedures **or (2) obtain further direction** for incorporation into the next revision of the draft Exposure Draft.

BRIEFING MATERIAL

1. **Attachment 1- Tracked Changes Version** of the ED.

[1] The staff prepares board meeting materials to facilitate discussion of issues at the board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

At the April meeting the Board reviewed a revised draft Exposure Draft (ED) on P3 disclosure requirements that reflected changes from the draft reviewed in March. In reviewing the revised draft ED, members began with a review of the P3 definition that resulted in a change to indicate that the government may also share financing with the private sector.

The Board then discussed the language in paragraph 8 about the association of the guidance in SFFAS 5, *Accounting for Liabilities of the Federal Government,* (contingencies) regarding recognition and disclosure thresholds including disclosures related to remote risks of loss. Members generally agreed to re-phrase the guidance to better facilitate application and to clarify the relationship between this proposed statement and SFFAS 5. The Board was clear that preparers should not dismiss disclosing risks that are deemed to be remote and asked staff to make this clear in the next revision.

In an attempt to narrow and focus the scope of this proposed statement, staff suggested the inclusion of 2 conditions in paragraph 17 (Scope section) which would in essence pre-screen arrangements prior to applying the risk-based characteristics. The Board discussed the language in paragraph 17 but noted the overlap between the first condition (long-lived asset) and the first conclusive characteristic. The Board agreed to take out the entire paragraph and to ask respondents about whether they believe a need exists for some type of front-end filter and to suggest some possible filters. Staff was asked to address this in the Questions for Respondents section of the ED.

A Board member was concerned that the ED did not sufficiently explain how probability and materiality are related or how to evaluate the materiality of a disclosure. Staff noted that historically, the Board has taken the position that because materiality is best left to the preparer and auditor, a standard-setter should not be seen as interfering in such judgments. Addressing this sensitivity, members discussed that a potential solution is to use the word "significant" and indicate what features are associated with significance. Furthermore, members discussed how materiality could differ in a disclosures-only standard compared to a measurement and recognition standard. Staff was asked to make the concept of materiality more operational in the proposed standards.

As a final topic, the proposed disclosures were discussed, and there was general agreement to require additional details about the payments expected to be paid or incurred over the life of the agreement. Various other edits were suggested, most notably the elimination of the illustrations in Appendix B. Staff was asked to begin preparing for the next step which is to draft a pre-ballot Exposure Draft.

QUESTIONS FOR BOARD

As a result of the 24 April Board meeting and subsequent May 14 task force review of April's draft ED, staff has incorporated changes highlighted in Attachment 1.

A summary of the principal changes follows:

Board Member Changes		Task Force/Staff Changes	
Reference	**Content**	**Reference**	**Content**
Pages 10-11, Par. 8	• Thinking beyond SFFAS 5 • Softened language regarding remote risks; *considered for* vice *disclosed* • Remote risks should not be dismissed • Not all remote risks need disclosure	**Page 12, Par. 16**	• Exclude "plain-vanilla" leases from standard • Exclude FAR Part 13 Simplified Acquisitions
Page 12, Old Par. 17	• Delete entire paragraph	**Page 15, Par. 20 - see Table**	• Eliminate Suggestive Characteristic #2
Pages 12-13, New Par. 17	• Definition should accommodate mixed-financing	**Page 18, Par. 23d (i)**	• Include receipts (cash-inflows)
Page 18, Par. 22	• P3 disclosures are in addition to other disclosures	**Page 18, Par. 23d (ii) & (iii)**	• Require undiscounted amounts
		Page 20, Par. 25	• Change effective date to Fiscal Year 18.
		Pages 27-28, Par. A-11 (a)	• Emphasize Heightened Fiscal Exposure
		Pages 28-29, Par. A-12	• Exclude "plain-vanilla" leases from standard

QUESTIONS FOR BOARD

Question 1 – Refer to the above summary and Attachment 1 for details.

Question 1

Does the Board believe that the revised draft ED satisfactorily addresses any open content or technical concerns that may have existed at the April meeting? If not, please identify any pending concerns and what changes staff should consider making to better address them.

Question 2 – The draft ED solicits answers to 7 questions.

Question 2 - Refer to Attachment 1, pages 5 - 8*:*

Does the Board generally agree with each of the questions being asked? If not, please identify the question along with changes you would like to see made. Are there any other questions that the Board would like to ask the community? If so, please explain why and feel free to suggest appropriate language.

Question 3 - Staff recommends that the proposed effective date be changed to periods beginning after September 30, 2017. This will allow for a 2 year implementation period.

Question 3 – Refer to Attachment 1, paragraph 25:

Does the Board agree with the proposed implementation date? If not, what period would the Board prefer establishing?

NEXT STEPS

July - August 2014: Finalize Exposure Draft

- Pre-ballot draft circulated for review and comment (timing dependent on outcome of this meeting)
- Ballot draft
  - ✓ Ballot drafts will be due 5 working days after distribution

August – October 2014: Issue Exposure Draft

- Proceed with exposure draft for 90-day comment period upon receipt of five affirmative ballots

January - March 2015: Consider Comments and Finalize Standards for disclosures

- Deliberate on responses
- Proceed with a final ballot and finalize Standards

March 2015 – September 2017: Next Phase of project

- Address recognition, measurement and reporting issues as appropriate.
  - ✓ Develop implementation guidance and/or standards in concert with leases and reporting entity projects.

If you require additional information please contact me as soon as possible. If you have any questions or comments, please contact me by telephone at 202.512.6841 or by e-mail at savinid@fasab.gov

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Federal Accounting Standards Advisory Board

PUBLIC-PRIVATE PARTNERSHIPS
DISCLOSURE REQUIREMENTS

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by October TBD, 2014

August TBD, 2014

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

Contact us:

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail stop 6H19
Washington, DC 20548
Telephone 202-512-7350
FAX – 202-512-7366
www.fasab.gov

Federal Accounting Standards Advisory Board

August TBD, 2014

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Public-Private Partnerships: Disclosure Requirements*, are requested. Specific questions for your consideration appear on page 5 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by October TBD, 2014.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in the FASAB's newsletter.

Sincerely,

Tom L. Allen
Chairman

441 G Street NW, Mailstop 6H19, Washington, DC 20548 ♦(202) 512-7350 ♦fax (202) 512-7366

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

To ensure that the full costs of Public-Private Partnerships (P3s) are recognized in the reporting entity's general purpose federal financial reports (GPFFRs), the Board anticipates providing implementation guidance in two phases.[1] The first phase as covered by this proposal addresses disclosure requirements to aid users in understanding the nature of P3s and related fiscal exposures. To that end, this proposed Statement establishes a definition of P3s and identifies risk-based characteristics that would need to exist before considering the proposed disclosure requirements. The second phase of the project will cover measurement and recognition issues. Specifically, because the Board has previously addressed various types of long-term arrangements in which the government participates (for example, leases, guarantees, etc.), existing accounting standards provide for measurement and recognition of assets/liabilities and revenues/expenses as well as disclosures of certain risks (i.e. fiscal exposure) in these long-standing types of arrangements or transactions. Therefore, the Board believes that there is an immediate need for disclosure requirements specific to the fiscal exposures existing in P3s for which there is no current accounting guidance. The requirements herein would not replace existing disclosure requirements in other statements of federal financial accounting standards (SFFAS) for similar arrangements or transactions such as leases. P3s are complex arrangements and an entity would apply all applicable standards to report relevant information in the notes regarded as an integral part of the basic financial statement.

Comment [DNS1]: Per H. Steinberg on 24 April Board meeting. I'm wondering whether in the introduction we want to be that definitive; maybe putting in something about "subject to the acceptance of the technical agenda."

Staff: Ms. Payne noted that this is an easy fix that we could footnote. Mr. Steinberg concurred with Ms. Payne's recommendation.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

Given the increasing use of P3s, the Board has identified a need for disclosures regarding these complex agreements. By addressing disclosure issues as a first step, the Board will ensure information regarding the nature of these complex agreements and their risks is provided. The Board also believes there is a need for clarity in respect to the (full) costs of these complex arrangements or transactions and will continue working with stakeholders to identify measurement and recognition issues pertinent to these complex agreements. As such, future proposals may address additional measurement and recognition guidance that may be needed for certain types of P3 arrangements or transactions.

Of the four objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting,* the operating performance and budgetary integrity objectives are identified as being most important for P3 reporting.[2] P3 reporting is important to meeting these objectives because the federal government is accountable to citizens for the proper administration of its resources. Because P3s are a form of investment, they should be

[1] This is subject to the acceptance of the technical agenda. The Board routinely consults with the Executive Director to prioritize its potential projects. As a result, active projects may change based on periodic prioritization by the Board. Please note that all agenda decisions are made at Board meetings by oral polling with agreement of at least a majority of members polled required for approval. Source: FASAB Rules of Procedure, October 2010,

[2] SFFAC 1, *Objectives of Federal Financial Reporting*, September 2, 1993, par. 9-10.

adequately disclosed in order to assist report users in determining: (a) what the important assets of the U.S. government are and how effectively they are being managed and (b) the identification of the risks (that is, fiscal exposure) associated with P3s.

Operating Performance Objective

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine:

- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government's management of its assets and liabilities.

Budgetary Integrity Objective

Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. Federal financial reporting should:

- provide information that helps the reader to determine how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
- the status of budgetary resources, and
- how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

Source: SFFAC 1

The ultimate benefits of developing this Statement include but are not limited to:

a. Developing terminology and guidance that is meaningful to federal agencies and users.

b. Improving consistency in definitions so that information is comparable among agencies.

c. Disclosing information helpful in meeting the reporting objectives.

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QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by October TBD, 2014.

Questions for Respondents

Q1. The Board proposes defining the term "public-private partnerships" as shown below:

Comment [DNS2]: Per S. McCall on 24 April. Language should accommodate mixed-financing when the government participates along with the private partner.

> Federal public-private partnerships (P3s) are contractual arrangements or transactions between public and private sector entities to provide a service or an asset for either government or general public use where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or transactions. Sharing of risks and rewards is evidenced by conditions such as (1) agreements covering a significant portion of the economic life of a project or asset, and/or lasting more than five years, (2) financing provided in whole or in part ~~arranged~~ by the private partner, (3) conveyance or transfer of real and personal property, multi-sector skills and expertise, or (4) formation of special purpose vehicles (SPVs).

Do you agree or disagree that the P3 definition proposed at paragraph 17 captures the most widely identified features of federal P3s (refer to paragraphs A7 – A9 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Q2. The Board's proposed definition at paragraph 17 is intended to help identify risk-sharing arrangements or transactions that could possess heightened risk (i.e., fiscal exposure) to the entity. Such arrangements or transactions are commonly referred to as *Public-Private Partnerships* (P3s) but may also be referred to as *Alternative Financing Arrangements* or *Privatization Initiatives*. For example, informal arrangements or transactions that do not share risks or rewards and are solely designed to foster goodwill, encourage economic development, promote research and innovation, coordinate and integrate strategic initiatives, etc., would generally be exempt from applying this Statement.

a. Do you agree or disagree that the P3 definition helps identify risk-sharing arrangements or transactions that could possess heightened risk (i.e., fiscal exposure) to the entity (refer to paragraphs 17, 18, A7- A9, and A10 - A12 for related comments)? Please provide the rationale for your answer.

b. Do you agree or disagree that the P3 definition, while capturing P3s based on their most widely identified features, does not also capture contracts or other arrangements that are routine in nature and not generally identified as P3s for other purposes (refer to paragraphs 17, 18, A7- A9, and A10 – A12 for related comments)? Please provide the rationale for your answer.

c. Are there any features other than those identified in the proposed P3 definition that would assist entities in identifying arrangements or transactions that could possess heightened risk (i.e., fiscal exposure) to the entity (refer to paragraphs 17, 18, A7- A9, and A10 - A12 for related comments)? Please provide the rationale for your answer.

d. For those informal arrangements or transactions that do not share risks or rewards and for example, are solely designed to foster goodwill, encourage economic development, promote research and innovation, coordinate and integrate strategic initiatives, etc., what features, if any, differentiate them from those arrangements or transactions that do possess heightened risk (i.e., fiscal exposure) to the entity (i.e., fiscal exposure) (refer to paragraphs 17, 18, A7- A9, A10 – A12, and A13 – A14 for related comments)? Please provide the rationale for your answer.

Q3. The Board (refer to paragraphs A1 – A6 for related comments) has developed P3 risk-based characteristics (that is, Conclusive and Suggestive Characteristics) to ascertain what P3s, if any, should be considered for disclosure. The characteristics apply to all types of P3's; construction, housing, utilities, military depots, etc. These characteristics may eliminate the need to disclose P3 arrangements/transactions that do not possess heightened fiscal exposure(s).

a. Do you agree or disagree that only those P3s (identified pursuant to the above definition) possessing risk-based characteristics (that is, Conclusive or Suggestive Characteristics) should be subject to the disclosure requirements proposed at paragraphs 21 – 24 (refer to paragraphs A13 – A14 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

b. Do you believe that there are other arrangements or transactions besides P3s for which the risk-based characteristics are present and therefore disclosure should be required? Please provide the rationale for your answer.

Q4. The Board proposes that the P3 risk-based characteristics be categorized as either: Conclusive characteristics - where answering "Yes" to any one characteristic means the P3 arrangement or transaction should be considered for disclosure; or Suggestive characteristics - where answering "Yes" to any one characteristic suggests that the P3 arrangement or transaction may be subject to disclosure but that this one Suggestive characteristic must be considered in the aggregate with all the other Suggestive characteristics before reaching a final decision. Each Conclusive characteristic is meant to be definitive whereas each Suggestive characteristic will require entity judgment as each one is analyzed in connection with the other Suggestive characteristics. The Conclusive and Suggestive characteristics are presented at paragraphs 19 to 20 and more fully discussed at paragraphs A15 – A16.

Do you agree or disagree with the risk-based characteristics, their related classification as either Conclusive or Suggestive, and their proposed application at paragraphs 19 and 20 (refer to paragraphs A15 – A16 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Q5. The Board proposes the following disclosures:

a. The purpose or objective for the P3 arrangement or transaction including the relative benefits/revenues being received in exchange for all of the government's consideration, monetary and non-monetary.

b. The decision criteria for selecting a P3 arrangement or transaction including the entity's statutory authority for entering into the P3.

c. Type of funding, federal or otherwise, used to meet mission requirements and service delivery needs to support the P3; for example, appropriated, non-appropriated, private capital or investment.

d. The operational and financial structure of the P3 including the entity's rights and responsibilities, including:

   i. A description of the amounts to be received and paid by the government over the life of the P3 arrangement or transaction to include in-kind contributions/services and donations, specific time periods that such amounts will occur, and whether method of payments are made directly to each partner or indirectly through a third-party' i.e., military housing allowances.

   ii. The total (undiscounted) amounts expected to be received and paid by the government over the life of the P3.

   iii. The annual (undiscounted) amounts the government expects to receive and pay for each year of the arrangement over the life of the P3.

e. Contractual provisions for termination payments and related exit amounts.

f. Identification of the significant risks the P3 partners are undertaking.

g. As applicable:

   i. Significant non-compliances with legal and contractual provisions governing the P3 arrangement or transaction.

   ii. Whether the private partner(s), including any Special Purpose Vehicle (SPV), have borrowed or invested capital contingent upon the entity's promise to pay whether implied or explicit.

   iii. Description of events of termination or default.

Do you agree or disagree with the component entity report disclosures proposed at paragraph 23 (refer to paragraphs A25 – A27 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Questions for Respondents

Q6. The Board proposes that due to the relative complexity and potentially large number of P3s that an entity might be party to, the proposed disclosures would permit entities to provide broad summarized information instead of individual arrangement or transaction detail. For example, disclosures of P3 arrangements or transactions could be grouped by an entity's strategic objectives, departmental or bureau categorizations, program budget classifications, etc. In this way, users are presented with information that is comprehensive and material to an entity's financial statements without placing an undue burden on preparers to provide P3 specific or granular level information.

Do you agree or disagree that entities should be permitted to aggregate or group disclosures as proposed at paragraph 21 (refer to paragraphs A28 – A29 for a detailed discussion and related explanations)? Please provide the rationale for your answer.

Q7. The Board encourages respondents to not only provide input concerning any and all aspects of the proposed changes, including the proposed effective date, but also other matters which may not have been specifically addressed in this exposure draft. In addition, the basis for conclusions explains the Board's goals for this project (see comments beginning at paragraph A1) and also discusses other issues raised by task force members as well as experts and practitioners both within and external to government (as an example, see paragraphs A4 through A6).

Please provide any comments or suggestions you have regarding the goals for this project, other issues identified in the basis for conclusions, or areas which have not been addressed.

INTRODUCTION

PURPOSE

1. The requirements for effective government continue to expand despite shrinking or limited funding, human capital skill sets, and other resources. To meet that challenge, government is increasingly establishing risk-sharing structural arrangements or engaging in transactions with the private sector to deliver infrastructure, facilities, goods, and services in a less costly and more operationally efficient manner. From the point of view of the governmental entity (entity), entering into these arrangements or transactions may be seen as beneficial and in some cases essential for a variety of reasons. To that end, entities may employ risk-sharing as a way of delivering public value that might otherwise not be achieved.

2. These risk-sharing structural arrangements or transactions are commonly referred to as **Public-Private Partnerships (P3s)**[3] but may also be referred to as Alternative Financing Arrangements, or Privatization Initiatives, some of which are extremely complex. For example, P3s may involve the use of appropriated funds, non-appropriated funds, third-party financing, or significant amounts of private capital or investment. Furthermore, P3s can (1) be so long-term in nature that costs may not be distributed equitably across generations, (2) exclude contractual protections afforded the government by the Federal Acquisition Regulation (FAR) such as, but not limited to: termination rights and obligations, contract by negotiation, cost accounting administration, and contract cost allowability, and (3) require the government to provide resources or absorb losses greater than other alternative procurement methods or competing in-house[4] performance. Lastly, P3s may involve the transfer of government assets, including intellectual property, into private hands for extended periods of time.

3. As a result, the Board recognizes that the accounting and reporting issues related to risk-sharing can also be extremely complex, involving a wide array of assets and liabilities. P3s by their very design transfer or share various forms of risk among the P3 partners. Such risk allocation strategies are in essence the very incentives that serve as the foundation or building blocks for P3s. Therefore, an entity must understand how much (total) risk resides in an arrangement or transaction and how much of that risk has been (1) transferred to the private partner, (2) shared with the private partner, and (3) retained by the entity (that is, government sponsor). Such an analysis relies on a thorough understanding of the underlying contractual agreements, guarantees, insurance and indemnification strategies as well as the existence and nature of any underlying capital buffer that might exist; that is, the extent of any debt (e.g., bonds, loans, notes, etc) and equity (e.g., stocks, other securities representing an ownership interest) investors' participation.

[3] Terms defined in the Glossary are shown in bold-face the first time they appear.

[4] In-house refers to using Government facilities and personnel as opposed to relying on commercial sources to supply the products and services the Government needs.

4. Entities can execute P3s via **structural arrangements** through the use of **special purpose vehicles (SPV's)** and/or directly as **program transactional arrangements**. Furthermore, many P3s are either discrete (long-term) leases or involve aspects of leasing.

5. Because the Board has previously addressed various types of long-term arrangements in which the government participates (for example, leases, guarantees, etc.), existing accounting standards provide for recognition and measurement of assets/liabilities and revenues/expenses as well as disclosures of certain risks in these long-standing types of arrangements or transactions. Therefore, the Board believes the immediate need is for disclosure requirements specific to P3 risk-sharing.

6. To that end, the Board notes that there are specific risks associated with P3s. For example, (1) where actual costs will be greater than those corresponding costs provided for in the federal budget, (2) the entity may have to absorb part or all of the project's private debt, (3) the entity will not achieve expected returns on its investments in limited partnerships, (4) conditions may lead to a government-acknowledged event where an entity assumes financial responsibility for the event, and (5) the public purpose or public value will not be fulfilled or achieved. Because of the risks involved in entering into such long-term agreements, some of which involve government assets, specific disclosures regarding P3s are needed to foster accountability and proper accounting while disclosing associated risks (that is, fiscal exposure). Such disclosures should generally accompany the related asset and/or liability display contained within the financial statements.

7. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. Some risks associated with P3s may result in the incurrence of losses and applying Statement of Federal Financial Accounting Standards 5 (SFFAS 5): *Accounting for Liabilities of the Federal Government* would be appropriate. For recognition of losses, SFFAS 5 requires that a past event have occurred for which a future outflow or other sacrifice of resources is probable and measurable. Disclosure should be provided for reasonably possible losses.

8. Due to their very nature, P3s ~~can also~~ possess risks that may be deemed remote but are nonetheless significant and should be disclosed. ~~extend beyond do not necessarily the scope ofmeet the the guidance contained in SFFAS 5 threshold for recognition or disclosure wherein such risksbut are nonetheless reasonably possible and significant but deemed remote.~~ For example, excluding contractual protections[5] afforded the government by the Federal Acquisition Regulation (FAR) inherently increases the entity's risk as does a relationship with an industry or private partner that may require the government to provide resources or absorb losses beyond what was contemplated. It is the Board's opinion that such ~~risks~~ P3 arrangements or transactions should be considered for disclosure~~disclosed~~, subject to materiality, even though their risks may be deemed remote~~it is uncertain that a past event indicates that a loss may have been incurred~~. Therefore,

[5] For example, contractual protections afforded the government by the Federal Acquisition Regulation (FAR) include but are not limited to: termination rights and obligations, contract by negotiation, cost accounting administration, and contract cost allowability.

Comment [DNS3]: As per 24 April Board meeting - Mr. Allen suggested that right finesse is saying that we should think beyond SFFAS 5 and here are some considerations.

Staff: I suggest we not reference SFFAS 5 or the fact that it might be "light" in regards to guidance pertaining to remote risks.

Comment [DNS4]: As per 15 May meeting with B. Dacey. Risks that are not contractual or contemplated are problematic as they can be potentially limitless and unforeseeable.

Staff: Please see suggested edit.

Comment [DNS5]: As per 24 April Board meeting - Mr. Showalter suggested that we say, regardless of the amounts involved, that preparers shouldn't dismiss disclosing these risks just because they are remote.

consideration should be given to those risks that management does not expect to be likely yet represent a significant exposure. With this being said, the Board also notes that (1) certain remote risks may have a reasonably high materiality threshold, and (2) not all remote risks in a P3 arrangement or transaction need to be disclosed to satisfy the requirements of this Statement.~~.~~ As such, remote risks ~~not contingent in nature~~ should not be dismissed from disclosure without further consideration of user needs, qualitative and quantitative assessments, and materiality.

> **Comment [DNS6]:** As per 24 April Board meeting – Mr. Dacey "…but even within that contract, we wouldn't necessarily disclose every single risk with that P3 contract. We would almost go into that second tier and say what do we need to tell the reader about the risks because maybe you have a risk that you think I need to disclose but maybe not every single risk associated with that P3 should be disclosed."

> **Comment [DNS7]:** Per Messrs Allen, Dacey, Granof, and Showalter on 24 April. Remote risks should be considered for disclosure rather than being dismissed.

9. Disclosures comprise quantitative and qualitative information and not all P3 risks lead to fiscal exposure or can be readily or sufficiently measured. However, federal financial reports are most likely to meet reporting objectives and, therefore, user's needs when disclosures help readers understand complex arrangements and the associated risk. To this end, qualitative disclosures are as important as quantitative disclosures. Further, both quantitative and qualitative factors should be considered in assessing materiality as well as the nature and content of information to be disclosed.

10. Because the Board has identified the need for clarity in respect to questions that arise concerning the full costs, including risk (that is, fiscal exposure) of these complex arrangements or transactions, this Statement is a first step to developing principles-based guidance, and identifying potential gaps in existing guidance. The Board is working, and will continue to work, closely with stakeholders interested in improving the accounting and reporting of these complex arrangements or transactions. By addressing disclosure issues as a first step, the Board will facilitate continued cooperation and greater interest in identifying areas requiring attention while minimizing preparer burden. It should be noted that the Board also plans to address measurement, recognition and reporting issues through continued consultation with stakeholders. This could lead to the issuance of additional guidance and/or standards.

11. This proposal does not alter financial measurement and recognition requirements but may result in changes in practice due to the establishment of the proposed P3 definition focusing attention on P3s.

12. This proposed Statement addresses P3s and this term is used to refer to a wide variety of service, management, operating, and research and development arrangements or transactions. Such arrangements and transactions may include contracts, grants, alternative financing arrangements, privatization initiatives and other arrangements.

MATERIALITY

13. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

PROPOSED STANDARDS

SCOPE

14. This Statement applies to federal entities that present general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles, as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles*, Including the Application of Standards Issued by the Financial Accounting Standards Board.

15. The Statement provides a general definition of P3s and related disclosure criteria. The arrangements or transactions that fall within the scope of this Statement should be assessed against the Conclusive and Suggestive characteristics to identify those subject to the disclosure requirements. These characteristics along with materiality considerations would determine whether reporting certain P3 arrangements/transactions are necessary.

16. Leases, whether capital or operating, which are not bundled[6] and are entered into using GSA-delegated authority are excluded from the provisions of this Statement. Acquisition of supplies and services, including construction, research and development, and commercial items, made pursuant to the Federal Acquisition Regulation (FAR) Simplified Acquisition Procedures (FAR Part 13) are excluded from the provisions of this Statement.

~~17. This Statement applies only to those P3s that meet~~possess ~~(1) a long-lived asset (such as a building or a patent) or long-term financing liability is recognized~~~~tion or de-recognized~~~~tion concerns~~~~including reclassifications or (2) fiscal exposure (risk) that could lead to a liability. For example, P3s that are solely designed to foster goodwill, promote research and innovation, or coordinate and integrate strategic initiatives would not apply this Statement unless~~ one ~~of the above conditions exists. In addition, the P3 definition below refers to a wide variety of service, management, operating, and research and development arrangements or transactions. Such arrangements and transactions may, include contracts, grants, alternative financing arrangements, and privatization initiatives and other arrangements.~~

DEFINITION

~~18.~~17. Federal public-private partnerships (P3s) are contractual arrangements or transactions between public and private sector entities to provide a service or an asset for either government or general public use where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or

[6] A bundled lease typically arises when parties to a leasing arrangement agree to include additional products or services in the leasing arrangement, some of which might be related or tied directly to the underlying leased product or services (e.g., software updates, maintenance, etc.). Because these additional products or services are not always expressly identified in the underlying lease agreement and may be documented in other agreements, they are nonetheless considered "bundled" with the underlying lease agreement.

Comment [DNS8]: Per 14 May Task Force meeting. GSA and VA representatives assisted in crafting this carve-out noting that "plain-vanilla" leases do not possess the risk (fiscal exposure) associated with P3s. Please refer to the BFC paragraph A12 for details.

Comment [GAO9]: 2 June Consult with GAO's Acquisition & Sourcing Management Team (TD). Exempting FAR Part 13 acquisitions will eliminate numerous arrangements from consideration that are not within this project's intended scope.

Comment [DNS10]: Per T. Allen 24 April meeting. After table discussion it was decided to delete Par. 17 primarily because (1) the first condition identified dealing with LT assets conflicts with CC#1 on page 14 and (2) both conditions do not seem to effectively narrow the standard's scope.

transactions. Sharing of risks and rewards is evidenced by conditions such as (1) agreements covering a significant portion of the economic life of a project or asset, and/or lasting more than five years, (2) financing provided in whole or in part ~~arranged~~ by the private partner, (3) conveyance or transfer of real and personal property, multi-sector skills and expertise, or (4) formation of special purpose vehicles (SPVs).

Comment [DNS11]: Per S. McCall on 24 April. Language should accommodate mixed-financing when the government participates along with the private partner.

~~19.~~18. The above definition captures the most widely identified features of federal P3s. P3s should be assessed against the Conclusive and Suggestive characteristics presented below to identify those subject to the disclosure requirements.

IDENTIFICATION OF P3'S REQUIRING DISCLSOURE

~~20.~~19. If any one of the following Conclusive ccharacteristics is met, the P3 arrangement or transaction should be considered for disclosure. P3 arrangements or transactions identified for disclosure should be further evaluated in light of the entity's materiality considerations; for example, qualitative and quantitative thresholds.

Conclusive Characteristics	Fiscal Exposure (Risk) Rationale
1. The arrangement resulted in the conveyance or creation of a long-lived asset or long-term financing liability.	Not all P3s result in the conveyance or construction of an asset. However, in those that do, the government's risk may be significantly increased because of costs that accompany asset ownership or control. Further, some private partners may incur substantial liabilities in preparation for delivering services even if an asset is not created.
2. The federal entity participates in, helps sponsor, or is party to a Special Purpose Vehicle (SPV), partnership, trust, etc.	Entities such as SPVs, partnerships, trusts, etc., can be established for a variety of strategic and/or tactical reasons. Generally speaking, they are commonly considered risk-containment vehicles and are more often than not, purposefully kept off of budgets and balance sheets. P3s can be or most often become borrowing arrangements or alternative financing mechanisms. Therefore, the risk rests in the fact that because the established entity (for example, SPV) facilitates funding, an agency's explicit or implicit long-term debt or promise to pay the established entity is not appropriately recognized.
3. The term of the procurement or contract	Those P3 procurement or contract arrangements greater than 5 years pose greater risk to the

Conclusive Characteristics	Fiscal Exposure (Risk) Rationale
arrangement is longer than 5 years.	federal entity because there is often no re-procurement or re-negotiation opportunity for the agency. As a result, changed conditions that could warrant a fair and reasonable re-negotiation or re-competition cannot be exercised and increased costs that would otherwise be avoided are incurred for the duration of the arrangement.
4. The principal arrangement is exempt from the Federal Acquisition Regulation (FAR) ~~or other comparable laws, regulations or provisions preserving and protecting the government's rights~~.	The FAR is the primary regulation that governs the administrative framework that includes procurement and legal requirements to help safeguard and protect taxpayer dollars by preserving and protecting specific government (contractual) rights. Therefore, those P3s exempt from FAR are at an increased-risk because well-established safeguards and contract resolution mechanisms are abandoned in favor of substitute contract terms and conditions and/or alternate contract dispute resolution venues. As a result, the increased exposure arising from the loss of such contractual protections are not appropriately recognized or disclosed.

Comment [DNS12]: 22 May Staff edit - "Other" comparable laws, etc will be hard to define whereas the FAR is codified and universally understood.

~~21.~~20. While meeting one of the Suggestive ccharacteristics implies there is some persuasive evidence that the information at paragraph 24 may need to be disclosed for the P3, each characteristic must be considered in the aggregate with the other Suggestive characteristics before a final decision is reached. Each Conclusive characteristic is definitive whereas each Suggestive characteristic will require entity judgment as each one is analyzed in connection with the other Suggestive characteristics. P3 arrangements or transactions identified for disclosure should be further evaluated in light of the entity's materiality considerations; for example, qualitative and quantitative thresholds.

Suggestive Characteristics	Fiscal Exposure (Risk) Rationale
1. A **Value for Money**[7] analysis is performed.	The term VfM is almost always used in connection with P3 arrangements or transactions. VfM analyses are broader in scope emphasizing qualitative factors as opposed to the more traditional quantitatively based cost-benefit analyses most often performed. If an entity conducts a VfM analysis it is likely that the project in question is a P3. VfM's are typically more subjective than traditional cost-benefit analyses and are sometimes done ex-post facto thus increasing potential risk to the agency.
2. ~~The principal arrangement is not managed by an Administrative Contracting Officer (ACO) and/or Procurement Contracting Officer (PCO).~~	~~Typically, when a contract is awarded under the FAR, the procuring organization has an independent administrative contracting officer administer and manage aspects of the contract to ensure contract compliance. This activity can be either assigned to an Administrative Contracting Officer (ACO) who is usually external to the procuring organization or delegated internally to a Procurement~~

Comment [DNS13]: Per 14 May Task Force meeting (MF). Delete this SC because (1) if CC # 4 is "NO", we can assume that the P3 will be monitored by some type of contracting professional. Note that the FAR does not require an "1102" contracting series but does require administration and (2) this SC duplicates SC# 5 below.

[7] The National Council of Public Private Partnerships has adopted the United Kingdom's, Her Majesty's Treasury Value for Money definition as contained in Her Majesty's Value Assessment Guide:

> "VfM is defined as the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirement. VfM is not the choice of goods and services based on the lowest cost bid. To undertake a well-managed procurement, it is necessary to consider upfront, and at the earliest stage of procurement, what the key drivers of VfM in the procurement process will be".

Said another way, VfM is a much broader concept than typical cost-benefit analysis because it emphasizes "value" in more of a qualitative than quantitative manner. Quantitatively, some VfM models use a project's Internal Rate of Return (IRR) to help determine project acceptability. The VfM concept has drawn criticisms not only because of its subjectivity and lack of rigor in application, but because in some cases (1) cash flows can be easily managed to meet desired expectations and (2) VfM results are used as ex-post facto justifications for qualitatively made project and/or award decisions. It is important to note that the same criticisms can be made of the more traditional cost-benefit analyses used in management decision making.

Suggestive Characteristics	Fiscal Exposure (Risk) Rationale
	~~Contracting Officer (PCO). In some cases dual-administration will occur. However, if an entity does not delegate administration responsibility to any contracting officer and retains administration internally, there may be less objectivity and independence in ensuring that contract requirements are adhered to leading to potentially adverse financial ramifications for the agency.~~
3. The consideration or items given up in an arrangement or their value are not readily apparent.	Generally under common law, consideration from both parties is required in order to have what constitutes a binding contract. Some courts have ruled that in those cases where the exchange appears excessively one sided, no quid-pro-quo exists and the contract may be void by law. Therefore, in those cases where consideration or its value from either party is not readily apparent, such cases could lead to recourse or remedies that have adverse financial ramifications to the agency.
4. Significant work force duties, activities, or knowledge are cross-shared between public and private sector P3 parties.	As federal entities face under-utilization and skill retention issues, with Congressional approval, some entities are entering into P3 arrangements/transactions to put both infrastructure and government personnel to heightened work. However, there is a concern that the analyses used to justify these arrangements often exclude government personnel costs including legacy costs (for example, pensions, OPEB's, etc.). Therefore, increased risk exists in those cases where such costs are excluded because. the government (1) is left absorbing these costs with no related activity base, (2) is exposed to potential liabilities arising from union and/or employee litigation and (3) may lose governmental skill-sets that would lead to costlier contracting-out procurement options.
5. The focus is more on collaboration and informal, real-time, resolution processes than on formal, contractual, administrative processes.	Due to their very nature, P3 arrangements/transactions involve risk-sharing and in some cases, issues such as contract disputes are resolved informally. However, such informal resolution processes could lead to potential liability when contracting, procurement, or legal personnel are not involved. Therefore, the risk rests in the potential liability arising from informal resolution of what otherwise would require more formal contractual administrative

Suggestive Characteristics	Fiscal Exposure (Risk) Rationale
	processes.
6. The government relies on either the private sector partner's or a third party's determination of a P3's performance or return on investment/equity, without performing its own verification of performance/return on investment/equity.	Agencies often rely on 3rd party experts to assist in performing VfM and/or cost- benefit analyses, return-on-equity calculations, asset appraisals, risk-transfer analyses, etc. However, it has been noted both at the federal and state level that conflicts of interest often exist because there are only a few firms who practice in this highly sophisticated area. As a result, some firms have benefitted on both ends of the P3 arrangement/transaction by providing advisory services to both the private partner and government sponsor. In addition, fees are often based on the dollar volume of the arrangement creating what some believe are self-serving incentives. Therefore, the risk in those P3 arrangements/transactions rests where an agency does not or cannot perform its own independent analysis thus relying solely on either the private partner or a third party determination of a P3's performance or return on investment/equity without performing its own verification. Such analyses may belie the actual risk or fiscal exposure the government has or will incur.

DISCLOSURE REQUIREMENTS

COMPONENT REPORTING ENTITY DISCLOSURES

~~22.~~21. The P3 disclosures at paragraph 23 below specify the inclusion of qualitative and quantitative information and may be aggregated or grouped by an entity's strategic objectives, departmental or bureau categorizations, program budget classifications, or other means.

~~23.~~22. Disclosures should generally accompany the related asset and/or liability display contained within the financial statements. Depending on the circumstances, some of the listed information may be disclosed due to other requirements. The resulting disclosures should be integrated so that concise, meaningful and transparent information is provided and information is not repetitive.

~~24.~~23. Disclosures should be provided for the initial period and all annual periods thereafter where an entity is party to a P3 arrangement/transaction. The following information should be disclosed:

a. The purpose or objective for the P3 arrangement or transaction including the relative benefits/revenues being received in exchange for all of the government's consideration, monetary and non-monetary.

b. The decision criteria for selecting a P3 arrangement or transaction including the entity's statutory authority for entering into the P3.

c. Type of funding, federal or otherwise, used to meet mission requirements and service delivery needs to support the P3; for example, appropriated, non-appropriated, private capital or investment.

d. The operational and financial structure of the P3 including the entity's rights and responsibilities, including:

   i. A description of the amounts to be received and paid by the government over the life of the P3 arrangement or transaction to include in-kind contributions/services and donations, specific time periods that such amounts will occur, and whether method of payments are made directly to each partner or indirectly through a third-party, i.e., military housing allowances.

   ii. ~~The amount~~ The total (undiscounted) amounts expected to be received and paid by the government over the life of the P3.

   iii. The annual (undiscounted) amounts the government ~~will~~ expects to receive and pay for each year of the arrangement over the life of the P3.

~~d.~~e. Contractual provisions for termination ~~(default)~~ payments and related exit amounts.

~~e.~~f. Identification of the significant risks the P3 partners are undertaking.

Comment [DNS14]: April 24 Meeting.

As per 24 April Board meeting. Messrs Reger and Dacey.

Mr. Reger asked if we had a place where there was something that we were going to disclose anyway but, incidentally it's also a P3 arrangement, we would just ensure that in that other disclosure we include the required disclosures we are establishing here; is this what we are saying?

Mr. Dacey replied in the affirmative noting that **we need to clarify that this is in addition to** rather than instead of these other disclosures that are required under other standards.

Staff: Adopted from the Reporting Entity Par. 77 Footnote 43. Thank you Melissa.

Comment [DNS15]: As per 24 April Board meeting. Messrs Allen, Dacey, Smith and Ms. Payne. Added time-periods and methods of payment.

Comment [DNS16]: 2 June Staff analysis. To help (1) ensure comparable reporting at the Government-wide level and (2) increase informational value to users, staff advises that the Board require that all amounts be shown on an undiscounted basis.

Comment [DNS17]: As per 14 May Task Force meeting. Include revenues or cash in-flows.

Comment [DNS18]: 2 June Staff analysis. To help (1) ensure comparable reporting at the Government-wide level and (2) increase informational value to users, staff advises that the Board require that all amounts be shown on an undiscounted basis.

Comment [DNS19]: As per 24 April Board meeting. Mr. Smith suggested a legal review of the word "default" in connection with the above discussion because that's what we're really trying to say; something where they'd be a default of a term of the agreement. We can leave this with legal but that's probably another one that they should look at.

Staff: Based on 8 May 2014 legal consult consultation with G. Marchand, delete word "default". Inclusion of the word "default" could limit exit payments only to terminations for default while excluding other termination events like terminations for convenience.

~~f.~~g. As applicable:

i. Significant ~~Violations of~~non-compliances with legal and contractual provisions governing the P3 arrangement or transaction.

ii. Whether the private partner(s), including any Special Purpose Vehicle (SPV), have borrowed or invested capital contingent upon the entity's promise to pay whether implied or explicit.

iii. Description of events of termination or default.

Comment [DNS20]: Per 8 may consultation with G. Marchand. From a legal perspective both terms (violations and non-compliances) are comparable. Generally, violations are associated with laws whereas non-compliances are commonly used in contracts.

Staff: Suggest accepting the change to "Significant non-compliances".

Financial Report of the US Government Disclosures

~~25.~~24. The U.S. government-wide financial statements should disclose the following information:

a. general description of P3 arrangements or transactions,

b. the consolidated amounts the government can be reasonably expected to incur/pay over the life of the P3 arrangements or transactions, and

c. reference(s) to component entity report(s) for additional information.

EFFECTIVE DATE

~~26.~~25. The requirements of this Statement are effective for reporting periods beginning after September 30, ~~2015~~2017.

Comment [GAO21]: 30 May Staff edit. In consultation with Executive Director.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

PROJECT HISTORY

A1. As part of FASAB's technical agenda-setting process this project was added in April 2012 because federal agencies have increasingly turned to public-private partnerships to accomplish goals and in light of budget pressures likely to further increase their use. Although federal generally accepted accounting principles are fairly robust, the Board noted that due to the complex nature of P3s significant study would be required in this area regarding a host of issues dealing with the definition, measurement, and recognition of P3s. In December 2012 the project plan was adopted with the overall goal of recognizing the full costs of public-private partnerships in the financial statements. In addition, the formation of a P3 task force began and its inaugural meeting was held in February 2013.

A2. With active work on this project beginning in FY2013, final standards or guidance are expected following a three year effort. Specific project objectives include:

a. Defining terms

b. Providing guidance (that is, identifying gaps) for the recognition and measurement of:

    i. assets and liabilities,

    ii. revenues and expenses, and

    iii. establishing disclosure requirements.

c. Considering guidance for other arrangements related to P3s (for example, sale-leaseback or other long-term arrangements)

A3. Early in its deliberations the Board was clear that forthcoming guidance must be consistently applied and covered by an overarching principle(s). Specifically, the Board noted that it should look to establish uniform, principles-based guidance to enhance comparability among agencies, identify gaps in existing guidance, and avoid duplicating guidance or creating standards-overload. The Board noted its concern with the risks to which the government is exposed and related disclosures. As a result, members decided that because P3s often involve novel operational and complicated accounting practices, accompanied by sophisticated financing agreements, these complexities necessitate the establishment of disclosure requirements as a first step to (1) developing uniform, principles-based guidance, and (2) identifying potential gaps in existing guidance. To that end, the Board decided that a broad P3 definition accompanied by risk-based characteristics should be pursued to establish a framework for determining which P3s should be disclosed.

A4. P3 task force meetings for this phase of the project were held between February 2013 and May 2014. All meetings were well attended with representation from federal agencies, commercial sector, and citizens. Participants came from diverse disciplines such as accounting, auditing, facilities management, financial reporting, housing, information technology (IT), commercial and investment banking, procurement, and program management. The majority of participants agreed that there is significant interest in P3s across the diverse disciplines represented. It was noted that conditions such as current budget constraints and capacity (that is, contingency) planning are driving some agencies to look at various P3 models to accomplish mission. Interestingly, both federal and private participants agreed that there is strong pressure against the use of P3s noting that this probably arises from the “off balance sheet” or “off budget spending” stigma associated with these arrangements or transactions. To counter the stigma associated with the term *Public-Private Partnerships,* some entities have begun re-labeling their P3 initiatives as *Alternative Financing* and/or *Privatization Initiatives.* A citizen stated that absent empirical evidence supporting the notion that P3s in fact work, a citizen’s concern is that the government is assuming more risk than it would otherwise. In light of the fact that many private companies are flush with cash, the citizen suggested that this be an area of careful consideration calling for transparency and robust disclosure.

A5. To best meet the project goals and objectives, staff, in addition to engaging in task force discussions, initiated fact-finding meetings with experts and practitioners both within and external to government. Staff met with federal agency representatives, public policy experts, consultants, private equity participants and a private IT/Cloud/Software development firm. Please refer to Tables 1.0 and 2.0 respectively for listings of the federal agencies visited or considered and the professionals or disciplines consulted. The goal of the fact-finding meetings was to refine the project’s scope by:

a. identifying the types of arrangements/transactions where part of the agency’s risk profile has been transferred to (or shared with) the private partner,

b. identifying current P3 issues being faced by the participant(s),

c. soliciting input/suggestions on potential P3 financial reporting characteristics/criteria, and

d. analyzing arrangements for potential accounting policy issues.

TABLE 1.0

Fact-Finding Agencies Visited or Considered

Executive Agency*
Agency for International Development
Department of Commerce *
Department of Defense
Department of State
Department of Transportation/FHWA
Department of the Treasury
National Aeronautics and Space Administration
National Science Foundation
Veterans Affairs

* = Department of Commerce - no visit was made. GAO Congressional analysts provided information concerning a Department of Commerce P3 that was currently under audit.

TABLE 2.0

Professionals/Disciplines Consulted

	Profession/Organization/ Discipline	Federal	Non-Federal
1.	International Business & Finance Consultants		2X
2.	Procurement Professionals		2X
3.	Public Service Employee Union		X
4.	World Bank Finance Director		X
5.	P3 Attorney-Consultants		2X
6.	IT/Cloud Program Manager		X
7.	Agency Inspector General	X	
8.	Agency Policy Accountants	2X	
9.	Agency RP/Utility Directors	2X	
10.	Agency Deputy CFO	X	
11.	Agency Risk Manager	X	
12.	GAO Congressional Analysts	X	
13.	Agency P3 Program Manager	X	

Table 2.0 Note: An “X” signifies a single interview whereas as “2X” signifies that two persons usually from different organizations were interviewed.

Common Themes and Other Matters

A6. The most common themes arising from task force and fact finding meetings considered in developing the Statement include:

a. As a minimum, participants expect continued use if not growth in P3s.

b. Government employee legacy & relocation costs are not presently considered in VfM[8] analyses.

[8] *The National Council of Public Private Partnerships* has adopted the United Kingdom’s, Her Majesty’s Treasury Value for Money definition as contained in Her Majesty’s Value Assessment Guide:

> *VfM is defined as the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user’s requirement. VfM is not the choice of goods and services based on the lowest cost bid. To undertake a well-managed procurement, it is necessary to consider upfront, and at the earliest stage of procurement, what the key drivers of VfM in the procurement process will be.*

Said another way, VfM is a much broader concept than typical cost-benefit analysis because it emphasizes “value” in more of a qualitative than quantitative manner. Quantitatively, some VfM models use a project’s Internal Rate of Return (IRR) to help determine project acceptability. The VfM concept has drawn criticisms not only because of its subjectivity and lack of rigor in application, but because in some cases (1) cash flows can be easily managed to meet desired expectations and (2) VfM results are used

c. Long-term nature of P3s is accepted, but concerns include

   - lack of transparency in the solicitation and award processes along with the lack of competition hinders accountability and fair and reasonable pricing,
   - not applying the *Federal Acquisition Regulation*[9] (FAR) increases government risk, and
   - some P3s circumvent procurement administration.

d. In-Kind contributions are difficult to value or are overvalued and not always reported.

e. P3 financial reporting is generally supported but agencies and participants vary in the what, how and where.

   - For example, relative to significant and material P3 arrangements, some believe that property, plant, and equipment (PP&E) note disclosure would be sufficient whereas others believe that MD&A discussion is more appropriate because of the SFFAS 15, *Management's Discussion and Analysis,* requirement to address the future effects of existing, currently-known demands, risks, uncertainties, events, conditions and trends, while others suggest reporting in both locations.

Other Matters

- **Increased Risk to Citizens.** A few participants noted that P3s erode (1) the notion of public service (for example, what is inherently governmental) and (2) in many cases, belief in good government. This increased risk is evidenced by those entities that:
  a. purposefully avoid capital acquisition budgeting requirements
  b. absorb "availability" risk absent sufficient private partner consideration
  c. lose control of assets
  d. lock into long-term arrangements that cannot be re-competed or re-negotiated
  e. are constrained by contract modification restrictions
  f. are constrained by proximity and/or right-to-compete restrictions
  g. ignore government employee personnel (legacy) costs

as ex-post facto justifications for qualitatively made project and/or award decisions. It is important to note that the same criticisms can be made of the more traditional cost-benefit analyses used in management decision making.

[9] The FAR is the primary regulation for use by all Federal Executive agencies in their acquisition of supplies and services with appropriated funds. It became effective on April 1, 1984, and is issued within applicable laws under the joint authorities of the Administrator of General Services, the Secretary of Defense, and the Administrator for the National Aeronautics and Space Administration, under the broad policy guidelines of the Administrator, Office of Federal Procurement Policy, Office of Management and Budget.

- **Financing costs.** To enable private financing to work, P3's must be longer-term in nature to allow for sufficient time to liquidate debt and achieve Return on Investment targets. This is significantly different than traditional procurement contract periods that are typically 5 years or less.
- **Performance Metrics.** Financial reporting would be enhanced by incorporating performance metrics that could point to both risks and potential liabilities as they arise.

Definition: Public-Private Partnerships

A7. The Board believes that a definition should be established in order to best assist the preparer community with the accounting for and reporting of P3s. The Board desires establishing a definition that (1) reflects actual federal P3 practices, (2) covers the wide breadth and diverse scope of federal assets, and (3) focuses on the risk-sharing or risk transfer strategies that are the very essence of these complicated arrangements or transactions. The definition is intended for general application to be applied uniformly across the federal government.

A8. In reviewing the P3 definitions of other standard-setters, the Board notes that their guidance is focused on service concession arrangements (that is, a sub-set of P3s) that directly benefit the general public. The definition contained in this exposure draft is much broader primarily as a result of actual federal P3 practices reflecting the wide breadth and diverse scope of federal assets being managed. It is important to note that (1) federal preparers and auditors have identified accounting topics that extend beyond those typically found in service concession arrangements/transactions; for example, excess and/or underutilized infrastructure and facilities, in-kind consideration, non-monetary exchanges, and fair value, (2) oversight entities such as the Congressional Budget Office (CBO), Government Accountability Office (GAO), and inspectors general have defined and identified P3 arrangements or transactions to be more than just service concessions, and (3) service concession accounting guidance primarily reflects economic development initiatives such as new roads, toll roads, highways, airports, railways, hospitals, etc., whereas federal initiatives extend well beyond economic development such as the common defense and general welfare of the nation thus necessitating corresponding accounting guidance to best fit these federal initiatives.

A9. In developing the definition, the Board relied on the task force's review of existing definitions from several authoritative sources. The task force identified the more common characteristics of P3s which are believed to exist in the federal government. Some of the more common P3 characteristics identified include: existence of very long-term contractual agreements (for example, anywhere from five to 99 years), shared or transferred financing, agreements covering a significant portion of the project's or asset's life, shared risks, shared rewards, shared skills and expertise, conveyance or creation of real and personal property, and the use of special purpose vehicles (SPV's). The definition is:

> Federal public-private partnerships (P3s) are contractual arrangements or transactions between public and private sector entities to provide a service or an asset for either government or general public use where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or transactions. Sharing of risks and rewards is evidenced by conditions such as (1) agreements covering a significant portion of the economic life of a project or asset, and/or lasting more than five years, (2) financing provided in whole or in part ~~arranged~~ by the private partner, (3) conveyance or transfer of real and personal property, multi-sector skills and expertise, or (4) formation of special purpose vehicles (SPVs).

Scope, Applicability and Exclusions

Scope

A10. The Board recognizes that establishing a P3 definition reflecting the breadth and diverse scope of entity missions, operational strategies, available leasing authorities, and other variables might capture activities which are already being recognized or disclosed in the entity's financial statements. Specifically, this is because the Board has previously addressed various types of long-term arrangements in which the government participates (for example, leases and, guarantees). As such, existing accounting standards provide for recognition and measurement of assets/liabilities and revenues/expenses as well as disclosures of certain risks in these long-standing types of arrangements or transactions. However, the Board believes that there is an immediate need for disclosure requirements specific to the fiscal exposures existing in P3s for which there is no current accounting guidance. The requirements herein would not replace existing disclosure requirements in other statements of federal financial accounting standards (SFFAS) for similar arrangements or transactions such as leases. P3s are complex arrangements and an entity would apply all applicable standards to report relevant information in the notes regarded as an integral part of the basic financial statement.

Applicability

A11. To help ensure achievement of the federal reporting objectives while minimizing disclosure of those P3 arrangements or transactions that do warrant disclosure, the Board has established filters at several decision points to aid preparers in this regard. The filters are categorized as follow:

a. Overarching Disclosure Principle: Heightened Fiscal Exposure – The Board desires to limit ~~only intends~~ disclosure to~~of~~ those P3s possessing heightened fiscal exposure. For example, a key indicator that heightened fiscal exposure exists in a P3 arrangement or transaction is when a ~~(1)~~ long-lived asset or long-term financing liability exists in the arrangement or transaction regardless of which party recognizes said amounts. This is because (1) the inherent risks involved in acquiring, financing, operating and maintaining long-lived assets such as Property, Plant and Equipment, (PP&E) and certain intangible assets such as Patents or Trademarks, and (2) the risk-sharing

Comment [GAO22]: As per April 24 Board meeting. Mr. Dacey was concerned that the ED did not sufficiently explain how probability and materiality are related or how to evaluate the materiality of a disclosure. Addressing this sensitivity, members discussed that a potential solution is to use the word "significant" and indicate what features are associated with significance. Furthermore, members discussed how materiality could differ in a disclosures-only standard compared to a measurement and recognition standard. Staff was asked to make the concept of materiality more operational in the proposed standards.

Staff: I propose that we establish a principle that emphasizes that we are concerned with heightened risk. In this way users have a better understanding of our intent and this should also help them better apply "materiality."

nature of P3s, over very long periods creates the potential for heightened fiscal exposure to extend to either party. Such heightened fiscal exposure may extend even beyond what may have been contractually contemplated. ~~recognition or de-recognition concerns, to include reclassifications or (2) fiscal exposure (risk) that could lead to a liability~~. However, heightened fiscal exposure can exist absent a long-lived asset or long-term financing liability. For example, another key indicator of heightened fiscal exposure in a P3 arrangement or transaction is when government skills are effectively transferred to the private party. In addition to being left absorbing personnel legacy costs, the government is exposed to potential fiscal exposure and liabilities arising from the need to turn to costlier contracting-out procurement options and union and/or employee litigation, respectively.

Therefore, if a P3 arrangement or transaction does not possess heightened fiscal exposure, it would not be subject to the requirements of this Statement.

b. Definitional Features Indicative of Risk (Fiscal Exposure) – After careful study, the Board has identified four major features of federal P3 arrangements or transactions that are embodied in the proposed definition. These features are (1) agreements covering a significant portion of the economic life of a project or asset, and/or lasting more than five years, (2) financing provided in whole or in part by the private partner, (3) conveyance or transfer of real and personal property, multi-sector skills and expertise, or (4) formation of SPV's. Therefore, only those arrangements possessing one or more of the four features should be subject to the requirements of this Statement.

c. Risk-based Characteristics – More thoroughly discussed below, the Board has identified certain key characteristics that reflect varying degrees of risk that exist in federal P3s. Therefore, should these characteristics be absent in a P3, the disclosure requirements of this Statement would not apply.

d. Materiality – As is the custom with all Statements issued by the Board, only those P3s that are material (qualitatively and quantitatively) in nature, more thoroughly discussed below, should be subject to the requirements of this Statement. The Board notes that because materiality assessments require both qualitative and quantitative judgments, specific guidance limiting preparer and auditor considerations of information would not be appropriate.

Exclusions

A12. The Board proposes exempting from the provisions of this Statement (1) acquisitions made using Simplified Acquisition Procedures (FAR Part 13) and (2) leases, whether capital or operating, meeting certain conditions. It is the board's opinion that acquisitions of supplies and services, including construction, research and development, and commercial items using Simplified Acquisition Procedures are not within the intended scope of this Statement. Concerning leases, in consultation with the P3 Task Force and after careful consideration, the Board has concluded:

a. Enhanced Use Leases[10] (EULs) - that EULs are more oriented towards P3s because they (1) possess special authorities and are not subject to the FAR, (2) often operate under a risk-reward model as opposed to those entity leases that are basically a landlord-tenant relationship and not a risk-sharing partnership, and (3) can include ancillary services and in-kind consideration as part of the arrangement or transaction. Therefore, the Board opines that EULs should be subject to the proposed disclosures.

b. Non-EULs - to exempt non-EULs that meet two conditions: first, they are not bundled and second, they are entered into using GSA delegated authority. It is the Board's opinion that such leases (1) have no P3 fiscal exposure (risks), (2) are already subject to existing FASAB guidance, (3) have well defined FAR-based contractual processes and remedies in place to address risks associated with landlord-tenant relationships, (4) have contractually capped payments for termination liabilities, and (5) have termination payments that are indemnified by GSA's Building Fund. It is the Board's opinion that unless a lease is specifically bundled, or not entered into via GSA delegated authority, the provisions of this Statement should not apply.

   i. Bundled Leases - A bundled lease typically arises when parties to a leasing arrangement agree to include additional products or services in the leasing arrangement, some of which might be related or tied directly to the underlying leased product or services (e.g., software updates, maintenance). Because these additional products or services are not always expressly identified in the underlying lease agreement and may be documented in other agreements, they are nonetheless considered "bundled" with the underlying lease agreement.

      – Examples of bundled equipment leases can range from leasing high-end, sophisticated medical equipment (inclusive of all software licenses, training, maintenance, and/or other supplies necessary to operate the equipment during the lease term) to a small-ticket, basic photocopier with maintenance for the term of the lease.

      – Examples of bundled facilities leases can include fees paid for professional services and fees related to the purchase and/or construction of the facility. Such costs can include appraisal, architectural, engineering, environmental testing, financing, legal fees, and other before and after construction expenses.

      – Costs that are bundled are sometimes referred to as soft costs and from an accounting perspective can be (1) considered costs that are typically Indirect in nature and not part of the

[10] EULs are typically long-term lease agreements that allow public or private entities to use the property. Agency EUL programs have allowed entities to develop or occupy federal properties such as power plants, housing and healthcare facilities, office space, and parking facilities, and in return, federal agencies receive cash or in-kind consideration. Please note that there is no government-wide definition of EULs. Source: GAO-13-14 Federal Real Property: *Improved Cost Reporting Would Help Decision Makers Weigh the Benefits of Enhanced Use Leasing*, December 2012).

direct costs charged to a cost objective, and (2) inclusive of general & administrative expenses (G&A).

Risk-based Characteristics

A13. Although federal P3s are varied and complex, the Board believes that there are some common characteristics that can be used to identify those P3s that create risk (fiscal exposure) such that information would be disclosed. Because the Board is well aware of the administrative burdens that agencies face day-to-day and that some P3 portfolios might be voluminous, in addition to identifying those P3s that create fiscal exposure, the proposed risk-based characteristics can also be applied to assist a federal entity in determining which P3 arrangements or transactions do not require disclosure.

A14. The risk-based characteristics have been developed, refined, and categorized from an initial comprehensive list of characteristics that distinguishes federal P3s from traditional procurement actions. With the assistance of the task force, the Board further analyzed and then selected risk-based characteristics which indicate P3 risk or fiscal exposure. These risk-based characteristics are intended to apply to all types of P3s: construction, housing, utilities, military depots, and others. These risk-based characteristics would assist a federal entity in ascertaining which P3 arrangements or transactions require disclosure. Once a P3 is identified for disclosure, such arrangements or transactions would then be evaluated in light of the entity's materiality considerations including quantitative and qualitative threshold(s).

Conclusive and Suggestive Characteristics

A15. The Board proposes establishing two categories for the following risk-based characteristics; that is, Conclusive and Suggestive. Conclusive characteristics are those that by answering "Yes" to any one characteristic means the P3 arrangement or transaction should be considered for disclosure whereas answering "Yes" to any one of the Suggestive characteristic implies that there is some persuasive evidence that the P3 arrangement or transaction may need to be disclosed but that this one characteristic can be considered in the aggregate with all the other Suggestive characteristics before a final decision is made. Each Conclusive characteristic is meant to be definitive whereas each Suggestive characteristic will require entity judgment as each one is analyzed in connection with the other Suggestive characteristics.

A16. If a P3 arrangement or transaction is identified for disclosure it should be further evaluated in light of materiality considerations that include both qualitative and quantitative assessments in determining the information that should be presented regarding P3 arrangements or transactions.

Materiality

Considering User Needs

A17. As the standards-setting body for the federal government, the Board has stated that there are two fundamental values that provide the foundation for governmental accounting and financial reporting: “accountability” and its corollary, “decision usefulness.”[11] We have explained that “Because a democratic government should be accountable for its integrity, performance, and stewardship, it follows that the government must provide information useful to assess that accountability.” The Board believes that P3 disclosures are an essential element in establishing accountability.

A18. In applying the concept of materiality, the needs of the users of the annual financial report should be considered. Specific to P3s for example, users are interested in: (1) assessing the costs and related risks (that is fiscal exposure) of entering into such long-term agreements; (2) assessing the efficiency and effectiveness of these risk-sharing agreements as well as the government’s management of its assets and liabilities; and (3) determining how financial resources, budgetary or otherwise, have been obtained and used and whether their acquisition and use were in accordance with the entity’s legal authorization. As a result, the Board believes that the P3 disclosures contained in the body of this Statement help answer these questions while achieving the associated reporting objectives.

Qualitative and Quantitative Assessments Require Judgment

A19. “Materiality” has not been strictly defined in the accounting community; rather, it has been a matter of judgment on the part of preparers of financial statements and the auditors who attest to them. The determination of whether an item is material:

a. requires the exercise of considerable judgment, based on consideration of specific facts and circumstances, and

b. depends on the degree to which omitting or misstating information about this item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

The Board notes that while a P3 arrangement or transaction might not be considered material from a quantitative standpoint, it may be considered qualitatively material and subject to this Statement’s disclosure requirements if the disclosures would influence or change the judgment of the financial statement user. Exclusive reliance on certain quantitative benchmarks or thresholds to assess materiality should be avoided.

[11] SFFAC 1, par. 105 states, “The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. …Providing this information to the public, the news media, and elected officials is an essential part of accountability in government.”

Materiality Includes Probability Assessments

A20. Decisions whether to recognize or, in the case of this Statement, disclose a P3 arrangement or transaction may take into account considerations that include uncertainties. These considerations are measurement of an appropriate attribute (for example, historical cost, fair value, expected value, or some other attribute) which may include an assessment of the probability of future flows of economic benefits or services, assessments of the materiality of the item, and the benefit versus the cost of recognizing it.

A21. Statement of Federal Financial Accounting Standards 5 (SFFAS 5), *Accounting for Liabilities of the Federal Government,* states that "probable" refers to that which

a. can _reasonably be expected,_ or

b. is _believed to be more likely than not_ on the basis of available evidence or logic with the exception of pending or threatened litigation and unasserted claims.

The Board notes that the concept of probability is imprecise and may be difficult to apply with respect to certain P3 activities such as economic stabilization payments, in addition to other matters that could arise during the life of the P3 arrangement or transaction. However, the "more likely than not" phrase in SFFAS 5 accommodates the assessment of those uncertainties often associated with P3s due to their long-term nature and project variability.

Risks that are Deemed Remote

A22. SFFAS 5 provides that contingencies deemed remote (that is, the chance that a loss has been incurred is slight) are not recognized as a contingent liability or disclosed.[12] However, SFFAS 5 requires that a contingent liability should be disclosed if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred.

A23. The Board believes that some risks associated with P3s may be contingencies that arise because of an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. It is this uncertainty, or risk in other words, that prompts entities to seek private partners who can best

[12] Per SFFAS 5, paragraph 38, a contingent liability should be recognized when all of these three conditions are met:

- A past event or exchange transaction has occurred (for example, a federal entity has breached a contract with a nonfederal entity).
- A future outflow or other sacrifice of resources is probable (for example, the nonfederal entity has filed a legal claim against a federal entity for breach of contract and the federal entity's management believes the claim is likely to be settled in favor of the claimant).
- The future outflow or sacrifice of resources is measurable (for example, the federal entity's management determines an estimated settlement amount).

manage and/or contain the effects of the uncertainty that could ultimately lead to fiscal exposure. In applying~~Although~~ SFFAS 5 ~~states that in~~ some ~~cases~~ contingencies may be identified for which the degree of uncertainty is so great that no reporting (that is, recognition or disclosure) is required by that Statement.~~necessary,~~ However, the Board notes that reporting such contingencies is not ~~prohibited~~inconsistent with the provisions of SFFAS 5.~~In the case of P3s, the Board believes entities should consider disclosing such contingencies by taking into consideration user needs, qualitative and quantitative assessments, and materiality.~~

Comment [DNS23]: April 24 Meeting. Streamline this paragraph and note that reporting risks that are deemed remote by SFFAS 5 is not inconsistent with SFFAS 5.

A24. Due to their very nature, P3s can also possess risks that may be considered remote but significant~~do not necessarily arise because of an existing condition, situation, or set of circumstances~~. For example, excluding contractual protections afforded the government by the Federal Acquisition Regulation (FAR) inherently increases the entity's risk as does a relationship with an industry or private partner that may require the government to provide resources or absorb losses beyond what was contemplated. It is the Board's opinion that such P3 arrangements or transactions ~~risks~~ should be disclosed, subject to materiality, even though the inherent risks ~~they~~ may be deemed remote. The Board further notes that enterprise risk management frameworks often focus on remote risks because of the magnitude of any potential adverse effects that might arise. Therefore, consideration should be given to those risks that management does not expect to be likely, but represent a significant exposure to the government if they were to occur. With this being said, the Board also notes that such remote risks may have a reasonably high materiality threshold. As such, remote risks that are not contingent in nature should not be dismissed from disclosure without further consideration of user needs, qualitative and quantitative assessments, and materiality.

Comment [DNS24]: As per 15 May meeting with B. Dacey. Risks that are not contractual or contemplated are problematic as they can be potentially limitless and unforeseeable.

Staff: Please see suggested edit.

Disclosure Requirements of P3s

A25. The task force conducted research and identified examples of important disclosures surrounding P3s from a variety of international and national authoritative sources which address P3 information needs for different types of users. Additionally, the task force considered fact-finding meetings with public and private representatives regarding the types of information that diverse users believe are important. As a result, the task force overwhelmingly agreed with requiring disclosures concerning (1) why the government selects a P3 model to conduct business, (2) the solicitation and procurement processes used, (3) how the P3 is structured, (4) the expected benefits, and (5) the total amounts expected to be paid. Although it was noted that requiring a description of the solicitation and procurement processes is unusual in financial reporting, the task force reached that conclusion because P3s fall outside the routine way governments procure services such disclosures reveal the potential risk (fiscal exposure) that governments assume that can ultimately lead to liability recognition.

A26. In analyzing the task force's recommendations the Board considered the federal financial reporting objectives. Of the four objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, the operating performance and budgetary integrity objectives are identified as being most important for P3 reporting. The Board agreed that P3 reporting is important to meeting these objectives because the federal government is accountable to citizens for the proper administration of its resources. As such, the Board agreed with the majority of the task force's recommendations. However, requiring disclosure of an entity's solicitation and procurement processes falls outside the realm of financial reporting. Furthermore, the Board questioned the informational value of such a disclosure and concluded that its cost also exceeded potential benefits identified by the task force.

A27. P3s are a form of investment and they should be adequately disclosed in order to assist report users in determining: (a) the important assets of the U.S. government and how effectively they are being managed and (b) whether the government's financial position improved or deteriorated over the period of the P3. P3s often involve novel operational and complicated accounting practices, accompanied by sophisticated financing agreements. These complexities necessitate the establishment of disclosure principles as a first step to (1) developing uniform, principles-based guidance, and (2) identifying potential gaps in existing guidance. As a result of considering the overall financial reporting objectives, the Board further developed and refined the task force's recommendation to include the following disclosures:

a. The purpose or objective for the P3 arrangement or transaction including the relative benefits/revenues being received in exchange for all of the government's consideration, monetary and non-monetary.

b. The decision criteria for selecting a P3 arrangement or transaction including the entity's statutory authority for entering into the P3.

c. Type of funding, federal or otherwise, used to meet mission requirements and service delivery needs to support the P3; for example, appropriated, non-appropriated, private capital or investment.

d. The operational and financial structure of the P3 including the entity's rights and responsibilities, including:

    i. A description of the amounts to be received and paid by the government over the life of the P3 arrangement or transaction to include in-kind contributions/services and donations, specific time periods that such amounts will occur, and whether method of payments are made directly to each partner or indirectly through a third-party, i.e., military housing allowances.

    ii. The total (undiscounted) amounts expected to be received and paid by the government over the life of the P3.

    iii. The annual (undiscounted) amounts the government expects to receive and pay for each year of the arrangement over the life of the P3.

e. Contractual provisions for termination payments and related exit amounts.

f. Identification of the significant risks the P3 partners are undertaking.

g. As applicable:

i. Significant non-compliances with legal and contractual provisions governing the P3 arrangement or transaction.

ii. Whether the private partner(s), including any Special Purpose Vehicle (SPV), have borrowed or invested capital contingent upon the entity's promise to pay whether implied or explicit.

iii. Description of events of termination or default.

Aggregation

A28. Due to the relative complexity and potential voluminous nature of P3s that an entity might be party to, the Statement permits entities to aggregate disclosures by providing broad and summarized information instead of unique or discrete arrangement or transaction detail. However, entities would be permitted to disclose information related to individually significant P3 arrangements or transaction separately if entity management believed that such disclosure would better meet user needs.

A29. For example, disclosures of P3 arrangements or transactions could be aggregated by an entity's strategic objectives, departmental or bureau categorizations, program budget classifications, or other means. In this way users are presented with information that is comprehensive and material to an entity's financial statements without placing an undue burden on preparers to provide P3 specific or granular level information.

Reporting Period

A30. Disclosures are should be provided for the initial period and all annual periods thereafter where an entity is party to a material P3 arrangement/transaction.

ALTERNATIVE VIEWS

A31. Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a Statement. The alternative view would discuss the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the individual member alone. However, the individual member's view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The material following was prepared by [insert name or names] and is presented as an alternative view.

APPENDIX B: ILLUSTRATIONS

This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Statements.

RESERVED

APPENDIX C: ABBREVIATIONS

CFR	Consolidated financial report of the U.S. government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
VfM	Value for Money

APPENDIX D: GLOSSARY

Public-private partnerships - Federal public-private partnerships (P3s) are contractual arrangements or transactions between public and private sector entities to provide a service or an asset for either government or general public use where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or transactions. Sharing of risks and rewards is evidenced by conditions such as (1) agreements covering a significant portion of the economic life of a project or asset, and/or lasting more than five years, (2) financing provided in whole or in part by the private partner, (3) conveyance or transfer of real and personal property, multi-sector skills and expertise, or (4) formation of special purpose vehicles (SPVs).

P3 Structural Arrangement - P3s that are external to the government sponsor's or entity's operations and often involve the creation of an SPV, Trust, or LP, etc. For example, military base housing. Refer to Appendix B, Illustration 2.

P3 Transactional Arrangement - P3s that are internal to the government sponsor's or entity's operations. For example, work-share programs not involving the creation of a SPV, Trust, or LP, etc. Refer to Appendix B, Illustration 2.

Special Purpose Vehicles (SPVs) - also commonly called Special Purpose Entities (SPEs), are entities created for a specific, limited and normally temporary purpose. An SPV can be a corporation, trust, partnership, limited-liability company or some type of Variable Interest Entity (VIE). They are often an integral part of public private partnerships because of their risk-containment nature of isolating participating entities from financial risk.

Value for Money (VfM) - VfM is a much broader concept than typical cost-benefit analyses because it emphasizes "value" in more of a qualitative than quantitative manner. Quantitatively, some VfM models use a project's Internal Rate of Return (IRR) to help determine project acceptability.

Task Force Member Agencies

Department of Agriculture, U.S. Forest Service

Department of Defense, Office of the Secretary of Defense

Department of Defense, Comptroller

Department of Labor, Office of the Inspector General

Department of State, Bureau of Overseas Buildings Operations

Department of the Treasury, Office of Financial Stability

Department of the Treasury, Office of the Fiscal Assistant Secretary

Department of Veterans Affairs, Office of Financial Policy

General Services Administration, Office of the Chief Financial Officer

National Aeronautics and Space Administration, Office of Strategic Infrastructure

Naval Audit Service, Financial Management and Comptroller Division

Task Force Member Firms

American Federation of State, County and Municipal Employees

Checco Communications

Claret Consulting, Llc

Cloud Nine Technologies

Cotton and Company

Dennis M. Giaimo, MBA

Douglas Bartlett, CPA

Duller Studios

Institute for Responsible Infrastructure Stewardship

KPMG

McKenna, Long and Aldridge

Moreland Advisors, Inc

National Contract Management Association

National Council for Public Private Partnerships

Navigant Capital Advisors

Peck Law

Reed and Associates CPA’s

Saltus, Llc

Viaggio Corporation

FASAB Board Members

Tom L. Allen, Chair

Robert F. Dacey

Norman Dong

Michael H. Granof

Sam M. McCall

Mark Reger

D. Scott Showalter

Graylin E. Smith

Harold I. Steinberg

FASAB Staff

Wendy M. Payne, Executive Director

Project Staff

Domenic Nicholas Savini

Federal Accounting Standards Advisory Board
441 G Street NW, Suite 6814
Mail Stop 6H19
Washington, DC 20548
Telephone 202-512-7350
FAX 202-512-7366
www.fasab.gov

Comment [GAO25]: Staff will update accordingly.