Federal Accounting Standards Advisory Board

PUBLIC-PRIVATE PARTNERSHIPS
DISCLOSURE REQUIREMENTS

Statement of Federal Financial Accounting Standards 49

April 27, 2016

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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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

SUMMARY

This Statement establishes principles to ensure that disclosures about Public-Private Partnerships (P3s) are presented in the reporting entity's general purpose federal financial reports (GPFFRs). The principles guide financial reporting by establishing a P3 definition and identifying risk-based characteristics that need to exist before considering the P3 arrangement or transaction for disclosure.

This Statement exempts certain arrangements or transactions from the P3 disclosure requirements contained herein. Such exempt arrangements or transactions are subject to existing disclosure requirements in other Statements of Federal Financial Accounting Standards (SFFAS) applicable to such arrangements or transactions.

This Statement provides for first determining those arrangements or transactions that are exempt from the provisions of this Statement before proceeding to the P3 definition. Federal P3s are defined as "risk-sharing[1] arrangements or transactions lasting more than five years between public and private sector entities." Arrangements or transactions meeting the P3 definition are then evaluated against risk-based characteristics referred to as "Conclusive Characteristics." Should the arrangement or transaction not meet any one of the Conclusive Characteristics required for disclosure, the arrangement or transaction should then be evaluated against the "Suggestive Characteristics" before concluding whether disclosure is required. If an arrangement or transaction warrants reporting, the disclosures should be provided.

Disclosure requirements comprise quantitative and qualitative information to assist users in understanding the nature of P3s such as the relative benefits/revenues being received in exchange for the government's consideration, the contractual terms governing payments to and from the government, and related risks including those deemed remote. Disclosures can be provided by individual P3 or summarized; for example, by an entity's strategic objectives, departmental or bureau categorizations, or program budget classifications.

This Statement helps achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, by making P3s more understandable. P3 information is important to meeting these objectives because the federal government is accountable to citizens for the proper administration of its resources. Moreover, because P3s are a form of investment, 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) the identification of risks.

This Statement is effective for periods beginning after September 30, 2018. Earlier implementation is permitted.

[1] Risk-sharing exists when a public sector entity shares risks and rewards with a private sector entity whenever the benefits of the arrangement or transaction accrue to both the private sector entity and the public sector entity and (1) the public sector entity is at risk of loss, or (2) the private sector entity's ability to perform is at risk and success of the arrangement or transaction depends upon the public sector's intervention.

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INTRODUCTION

PURPOSE

1. To meet challenges such as those brought about by limited budgetary resources governments are increasingly establishing risk-sharing arrangements or transactions[2] with the private sector. Some of these arrangements or transactions may also involve private financing and enable governmental agencies to fulfill their missions to their constituents that would otherwise not be possible without such arrangements or transactions.

2. These risk-sharing 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 along with the accompanying benefits 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 should 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, the government sponsor). Such an understanding relies on a thorough analysis of the underlying contractual agreements, guarantees, insurance, and indemnification strategies as well as the existence and nature of any underlying private party capital buffer that might exist; that is, the extent of any debt (for example, bonds, loans and notes) and equity (for

[2] Risk-sharing can be either structural or transactional. P3 Structural Arrangements are external to the government entity's operations and often involve the creation of a Special Purpose Vehicle (SPV), Trust, or Limited Partnership (LP). For example, military base housing. P3 Transactional Arrangements are internal to the government entity's operations. For example, work-share programs not involving the creation of a SPV, Trust, or LP.

[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.

example, stocks, and other securities representing an ownership interest) participation.

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. The Board has previously addressed various types of long-term arrangements or transactions in which the government participates (for example, leases or guarantees). As such, accounting standards exist that 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. This Statement supplements existing guidance to help ensure adequate disclosure of those arrangements/transactions that either form the basis of or are part of a P3. Therefore, existing accounting standards that govern the various types of long-term arrangements/transactions continue to apply.

6. To that end, the Board notes that there are risks associated with P3s. For example, risks (1) where actual costs will be greater than budgeted costs, (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. Such disclosures foster accountability and improve understanding of (1) the general risks inherent in P3 arrangements by revealing their purpose, objective, funding, operational and financial structures; and (2) contractual risks of loss such as early termination requirements. 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 has occurred for which a future outflow or other sacrifice of resources is probable and measurable. Disclosure should be provided for reasonably possible losses and probable losses that are not measureable.

8. Due to their very nature, P3s are used to manage risks, some of which may be risks of loss included in the terms of the contractual P3 arrangements or transactions that are deemed remote but are nonetheless material and may require disclosure. For example, excluding contractual protections afforded the government by the FAR[5] inherently increases the entity's risk as does a

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

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 remote risks of loss included in the terms of the contractual P3 arrangements or transactions that are material should be disclosed. Therefore, consideration should be given to those risks that management does not expect to be likely yet could represent a risk of loss to the entity. With this being said, the Board also recognizes that (1) certain remote risks may have a reasonably high materiality threshold and (2) not all individual remote risks in a P3 arrangement or transaction need to be disclosed to satisfy the requirements of this Statement. As such, remote risks should not be dismissed from disclosure without further consideration of user needs and the qualitative and quantitative characteristics when applying materiality.

9. Disclosures comprise quantitative and qualitative information and not all P3 risks 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 or transactions 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 with respect to questions that arise concerning the full costs including risk of these complex arrangements or transactions, this Statement is a first step toward 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.

MATERIALITY

11. The provisions of this Statement need not be applied to immaterial items. However, materiality should be applied cumulatively or in the aggregate by the entity. 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. Refer to paragraphs 8 and 9 above for related comments.

SCOPE

12. 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*.

13. This Statement is applicable to public-private partnerships (P3s) and this term is used to refer to a wide variety of service, management, operating, and research and development arrangements or transactions meeting the definition of P3s presented in paragraphs 16 through 18.[6] Such arrangements and transactions may include contracts, grants, reimbursable agreements, alternative financing arrangements, privatization initiatives, and other arrangements or transactions.

14. Some P3s can result in risk of loss and therefore should be assessed against the risk based (conclusive and suggestive) characteristics at paragraphs 20 and 21 to identify those that should be disclosed.

15. The following arrangements and transactions are not subject to the provisions of this Statement:

    a. Non-lease acquisitions of property, plant, and equipment (PP&E) that are subject to the Federal Acquisition Regulations (FAR) and the private entity is not directly financing, operating, or maintaining the PP&E as part of an overall risk-sharing arrangement or transaction

    b. Leases[7] that are not bundled[8] and are entered into using General Services Administration (GSA)-delegated authority (This Statement does not amend

[6] For purposes of this Statement, the private sector refers to individuals and entities acting in their private capacities outside of the authority and control of federal, state, or local governments and encompasses for-profit businesses and non-profit organizations that are outside of the authority and control of federal, state or local governments.

[7] The term leases includes enhanced use leases and both capital and operating leases, as defined under current FASAB standards.

[8] 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 (for example, software updates or maintenance). Although 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.

existing standards applicable to leases and those standards remain applicable to all such arrangements/transactions.)

c. Acquisition of supplies and services, including construction, research and development, and commercial items, made pursuant to the FAR *Simplified Acquisition Procedures* (FAR Part 13)

d. Formal and 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, or coordinate and integrate strategic initiatives

e. Grants to state, local, and Indian tribal governments and other public institutions and arrangements or transactions with foreign governments

f. Arrangements or transactions in which private entities voluntarily contribute nominal resources or provide incidental resources without expectation of compensation or government indemnification for any possible risk of loss

DEFINITION

16. Subject to the exclusions noted in paragraph 15 and for the purposes of this Statement, federal public-private partnerships (P3s) are risk-sharing[9] arrangements or transactions with expected lives greater than five years between public and private sector entities. Such arrangements or transactions provide a service or an asset for government and/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.

17. A public sector entity shares risks and rewards with a private sector entity whenever the benefits of the arrangement or transaction accrue to both the private sector entity and the public sector entity and (1) the public sector entity is at risk of loss, or (2) the private sector entity's ability to perform is at risk and success of the arrangement or transaction depends upon the public sector's intervention.

18. The expected life of a P3 is the term or period for which the entity, including consideration of economic incentives, is likely to participate in the P3. The expected life is initially determined at the inception of the P3 arrangement when the economic incentives are identified and considered in the formation of the P3. Economic incentives considered may include expected significantly reduced costs or increased efficiencies if contracts are renewed or if the P3 approach is continued realization of return on investment, continuity of mission critical services, flexibility, and significant

[9] Risk-sharing can be either structural or transactional. P3 Structural Arrangements are external to the government entity's operations and often involve the creation of a Special Purpose Vehicle (SPV), Trust, or Limited Partnership (LP); for example, military base housing. P3 Transactional Arrangements are internal to the government entity's operations; for example, work-share programs not involving the creation of a SPV, Trust, or LP.

costs associated with nonrenewal, such as required payments at the end of the contract to compensate the private party for significant capital investments. Typically, expected life is documented in budget justifications, cost benefit or value for money analyses, or other analyses. Expected life may extend beyond the current contract period (including options or renewals). Expected life is re-evaluated as P3 contracts are renewed and when the entity identifies significant changes in circumstances during the contract period that may affect the expected life.[10]

19. Arrangements or transactions which are not excluded by paragraph 15 and meet the definition in paragraphs 16 through 18 should be assessed against the risk based characteristics in paragraphs 20 and 21.

IDENTIFICATION OF P3'S REQUIRING DISCLOSURE

20. The following risk characteristics are conclusive evidence that P3s possess risk of loss indicating that disclosures should be provided. If any one of the following conclusive risk characteristics is met, the P3 arrangement or transaction should be disclosed.

Conclusive Risk Characteristics	Risk Rationale[11]
1. The arrangement or transaction results in the conveyance or creation of a long-lived asset or long-term financing[12] 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, financing may be provided in whole or shared in part by private sector entities. Note that some private partners may incur substantial financing 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, and other such arrangements.	Entities such as SPVs, partnerships, trusts, and other such arrangements 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 not included in

[10] The Basis for Conclusions (BFC) paragraph A41 provides examples regarding determination of a P3's expected life.

[11] The rationale presented herein explains why the Board believes there is or may be risk of loss when the characteristic is present. The rationale discusses risk broadly and is not intended to create specific disclosure requirements. The disclosures are articulated in paragraph 23. Please refer to BFC paragraphs A37 through A44 for related comments.

[12] Contractors routinely finance operations while awaiting payment of invoices. Such routine financing is not indicative of a P3 in and of itself.

Conclusive Risk Characteristics	Risk Rationale[11]
	budgets or balance sheets. P3s employing SPVs, partnerships, trusts, and other such arrangements can be or most often become borrowing arrangements/transactions or alternative financing mechanisms. Therefore, the risk rests in the fact that because SPVs, partnerships, trusts, and other such arrangements can facilitate funding/financing, an agency's explicit or implicit long-term debt or promise to pay the established entity is not appropriately recognized in either budget or financial reports.
3. The arrangement or transaction covers a significant portion of the economic life of a project or asset.	Those P3 procurement or contract arrangements/transactions that cover a significant portion of the economic life of a project or asset pose greater risk to the 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/transaction.
4. The principal arrangement or transaction is exempt from: a. if a contract, the FAR; or b. if a grant, Office of Management and Budget (OMB) requirements (2 C.F.R. Title 2, Part 200).	The FAR for contracts and OMB requirements for grants govern the administrative framework and include procurement, accounting, and legal requirements to help safeguard taxpayer dollars. Therefore, those P3s exempt from such requirements are at an increased-risk because well-established safeguards and contract resolution mechanisms are absent.

21. The following risk characteristics are evidence that P3s may possess risk of loss and require disclosure. The following suggestive risk characteristics should be considered in the aggregate. Each suggestive risk characteristic will require entity judgment as each characteristic is analyzed in connection with the other suggestive risk characteristics.

Suggestive Risk Characteristics	Risk Rationale[11]
1. A **Value for Money**[13] (VfM) analysis is performed.	The term VfM is commonly 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 may indicate that the project in question is a P3. VfM's are typically more subjective than traditional cost-benefit analyses and are sometimes prepared ex-post facto, thus increasing potential risk to the agency.
2. The consideration or items given up in an arrangement/transaction 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.
3. 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

[13] In its publication "The Value for Money Analysis: A Guide for More Effective PSC and PPP Evaluation," the National Council of Public Private Partnerships 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.

Suggestive Risk Characteristics	Risk Rationale[11]
	heightened work. However, there is a concern that the analyses used to justify these arrangements or transactions often exclude government personnel costs, including associated legacy costs (for example, pension and OPEB). Therefore, increased risk exists in those cases where such costs are excluded from cost-benefit or VfM analyses 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 procurement options.
4. 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 or 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 processes.
5. 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 or return on investment/equity.	Agencies often rely on 3rd party experts to assist in performing various types of analyses. It has been noted 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 provided advisory services to both the private partner and government sponsor of a P3 arrangement/transaction. In addition, fees are often based on the dollar volume of the arrangement/transaction 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 significant risk the government has or will incur.

DISCLOSURE REQUIREMENTS

COMPONENT REPORTING ENTITY DISCLOSURES

22. The P3 disclosures at paragraph 24 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. Disclosures should generally accompany the related asset and/or liability display contained within the financial statements. Depending on the circumstances, some of the required information may be disclosed due to other requirements. The resultant disclosures should be integrated so that concise, meaningful, and transparent information is provided and information is not repetitive.

24. 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, objective, and rationale for the P3 arrangement or transaction and the relative benefits/revenues being received in exchange for the government's consideration, monetary and non-monetary; and the entity's statutory authority for entering into the P3.

    b. A description of federal and non-federal funding of the P3 over its expected life, including the mix and, where available, the amounts of such funding. For any amounts that are not available, the disclosures should indicate such.

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

        i. A description of the contractual terms governing payments to and from the government over the expected life of the P3 arrangement or transaction to include:

            1. explanation of how the expected life was determined

            2. the time periods payments are expected to occur

            3. whether payments are made directly to each partner or indirectly through a third-party, such as, military housing allowances

            4. in-kind contributions/services and donations

ii. The amounts received and paid by the government during the reporting period(s) and the amounts estimated to be received and paid in aggregate over the expected life of the P3

d. Identification of the contractual risks of loss the P3 partners are undertaking

i. Identification of such contractual risks of loss should include a description of (1) the contractual risk and (2) the potential effect on cash flows if the risks were realized (for example, early termination requirements including related exit amounts and other responsibilities such as asset condition (hand-back) requirements, minimum payment guarantees, escalation clauses, contingent payments, or renewal options).

ii. Disclosure of remote risks of loss should be limited to those included in the terms of the contractual P3 arrangements or transactions. If remote risks of loss are disclosed, an explanation should be included that avoids the misleading inference that there is more than a remote chance of a loss.

e. As applicable:

i. Associated amounts recognized in the financial statements such as gains or losses and capitalized items

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

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

iv. Description of events of termination or default

Financial Report of the US Government Disclosures

25. The U.S. government-wide financial statements should disclose:

a. a general description of P3 arrangements or transactions

b. the consolidated amounts the government received and paid during the reporting period(s) and estimated to be received and paid in aggregate over the expected life of the P3s

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

EFFECTIVE DATE

26. The requirements of this Statement are effective for reporting periods beginning after September 30, 2018. Early adoption is permitted.

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. This project was added to the FASAB's technical agenda 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 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 P3s in the financial statements. In addition, a P3 task force was formed and held its first meeting in February 2013.

A2. Final standards or guidance were expected to follow 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

   iii. establishing disclosure requirements

c. Considering guidance for other arrangements/transactions 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). The Board noted its concern is with the risks to which the government is exposed and related disclosures. As a result, members decided that because P3s often involve innovative 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. The Board believes that the resulting disclosures will inform the need for and development of future standards providing recognition

and measurement guidance specific to P3s. Therefore, any further work will be undertaken after these disclosures become effective.

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(s), 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. 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.

Common Themes and Other Matters

A5. The most common themes arising from task force and fact finding meetings considered in developing the Statement include:

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

b. Government employee legacy & relocation costs are not presently considered in Value for Money (VfM)[14] analyses.

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

i. lack of transparency in the solicitation and award processes along with the lack of competition hinders accountability and fair and reasonable pricing,

ii. not applying the Federal Acquisition Regulation[15] (FAR) increases government risk, and

iii. some P3s circumvent procurement administration.

[14] 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.

[15] 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.

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 of disclosures. For example, relative to significant and material P3 arrangements or transactions, 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.

A6. Other matters arising during task force and fact finding meetings included:

a. **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:

   i. purposefully avoid capital acquisition budgeting requirements

   ii. absorb "availability" risk[16] absent sufficient private partner consideration

   iii. lose control of assets

   iv. lock into long-term arrangements/transactions that cannot be re-competed or re-negotiated

   v. are constrained by contract modification restrictions

   vi. are constrained by proximity and/or right-to-compete restrictions

   vii. ignore government employee personnel (legacy) costs

b. **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.

c. **Performance Metrics.** Financial reporting would be enhanced by incorporating performance metrics that could point to both risks and potential liabilities as they arise.

[16] Availability risks or project completion risks exist when for example, defects in construction or quality shortfalls within the control of the private partner occur that preclude the asset or service from being available for its intended use requiring the government sponsor to intervene.

Summary of Outreach Efforts

A7. The ED was issued October 1, 2014 with comments requested by January 2, 2015. Upon release of the exposure draft, notices and press releases went to the following organizations:

a. The Federal Register

b. *FASAB News*

c. *The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive and the CPA Letter*

d. The CFO Council, the Council of the Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network; and members of both the Federal Real Property Council and Federal Facilities Council

e. Committees of professional associations generally commenting on exposure drafts in the past

A8. This broad announcement was followed by electronic mailings of the exposure draft followed up by several reminder notices.to:

a. Relevant congressional committees

i. House Committee on Oversight and Government Reform

ii. Senate Committee on Homeland Security and Governmental Affairs

b. Public interest and labor union groups

i. In the Public Interest

ii. American Federation of State, County and Municipal Employees

A9. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The following paragraphs discuss significant issues identified by respondents followed by Board decisions.

Respondents' Comments on the Exposure Draft

A10. The exposure draft was issued with an alternative view that expressed concerns over the (1) breadth of the general definition, (2) disclosures related to certain remote risks, and (3) clarity of "significant exposure." Specific comments regarding respondent concerns and Board re-deliberations are noted in the following paragraphs as appropriate.

Definition: Public-Private Partnerships

A11. In consultation with constituents to include respondent comments received and related outreach concerning the breadth and scope of the definition, the Board has further developed and refined the definition proposed in the exposure draft. The Board desired establishing a definition that (1) reflected actual federal P3 practices, (2) covered the wide breadth and diverse scope of federal assets, and (3) focused 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.

A12. In reviewing the P3 definitions of other standard-setters, the Board notes that their guidance is largely focused on service concession arrangements (that is, a sub-set of P3s) that directly benefit the general public. The definition contained in this Statement is much broader given 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, (2) oversight entities such as the Congressional Budget 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, and hospitals, whereas federal initiatives extend well beyond economic development such as the common defense and general welfare of the nation thus necessitating accounting guidance to best fit these federal initiatives.

A13. In developing the definition, the Board primarily relied on (1) the task force's review of existing definitions from several authoritative sources, (2) various respondent comments to the definition contained in the exposure draft, and (3) an ad-hoc working group comprised of selected respondents. 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 SPVs. Those respondents specifically commenting on the definition as well as the ad-hoc working group primarily suggested better linkage between the definition and the risk-based characteristics. Accordingly, the broad definition contained in the exposure draft was further refined and is as follows:

> Subject to the exclusions noted in paragraph 15 and for the purposes of this Statement, federal public-private partnerships (P3s) are risk-sharing[17] arrangements or transactions with

[17] A public sector entity shares risks and rewards with a private sector entity whenever the benefits of the arrangement or transaction accrue to both the private sector entity and the public sector entity and (1)

expected lives greater than five years between public and private sector entities. Such arrangements or transactions provide a service or an asset for government and/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.

Scope, Applicability and Exclusions

Scope

A14. 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/transactions 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 a need for disclosure requirements specific to the risks existing in P3s for which there is no current accounting guidance. The requirements herein do not replace existing disclosure requirements in other SFFASs for similar arrangements or transactions such as leases. P3s are complex arrangements/transactions and an entity would apply all applicable standards to report relevant information in the notes.

Applicability

A15. To help ensure achievement of the federal reporting objectives while minimizing unwarranted disclosure of P3 arrangements or transactions, the Board has established filters at several decision points to aid preparers in this regard. The filters are categorized as follows:

a. Definitional Features Indicative of Risk – After careful study the Board initially identified four major features of federal P3 arrangements or transactions that were embodied in the proposed definition: (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 shared in part by the private partner, (3) conveyance or transfer of real property, personal property, or multi-sector skills and expertise, and (4) formation of SPV's. However, as a result of respondent comments concerning linkage between the definition and the risk-based characteristics and a working group recommendation, the Board (1) realigned the four major features by incorporating them directly into the risk-based characteristics and (2) within the definition, specifically excluding arrangements or transactions which are not more than 5 years in duration.

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the public sector entity is at risk of loss, or (2) the private sector entity's ability to perform is at risk and success of the arrangement or transaction depends upon the public sector's intervention.

b. Risk-based Characteristics – The Board has identified and refined during its re-deliberations certain key characteristics discussed later 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 generally not apply.

c. 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 later, 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

A16. As a result of respondent comments concerning the breadth of the proposed definition, the ad-hoc working group recommended and the Board adopted three additional exclusions. The three additional exclusions are:

a. grants to state, local, and Indian tribal governments and other public institutions,

b. arrangements or transactions with foreign governments, and

c. arrangements or transactions sharing nominal or incidental resources.

The first two exclusions identified above reflect that this Statement only applies when a federal entity is in a risk-sharing arrangement or transaction with the private sector[18] and not a public sector institution. Risks associated with public-to-public partnerships (for example, federal to state or federal to local) and those associated with foreign governments (1) are significantly different when compared to risks arising in public-private partnerships and (2) warrant extensive research far beyond the scope of this Statement. Moreover, arrangements or transactions with Indian tribal governments or foreign governments are closely governed by selected agencies and Congressional committees and are also beyond the scope of this Statement. Lastly, arrangements or transactions in which private entities voluntarily contribute nominal resources or provide incidental resources without expectation of compensation or government indemnification for any possible risk of loss are also excluded from the requirements of this Statement.

A17. In summary, the following arrangements or transactions are excluded from the requirements of this Statement:

[18] For purposes of this Statement, the private sector refers to individuals and entities acting in their private capacities outside of the authority and control of federal, state or local governments and encompasses for-profit businesses and non-profit organizations that are outside of the authority and control of federal, state or local governments.

a. non-lease acquisitions of property, plant, and equipment that are subject to the FAR and the private entity is not directly financing, operating, or maintaining the PP&E as part of an overall risk-sharing arrangement or transaction,

b. leases meeting certain conditions,

c. acquisitions made using Simplified Acquisition Procedures (FAR Part 13),

d. formal and 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, or coordinate and integrate strategic initiatives,

e. grants to state, local, and Indian tribal governments and other public institutions and those with foreign governments, and

f. arrangements or transactions sharing nominal or incidental resources.

A18. Concerning leases, in consultation with the P3 Task Force and after careful consideration, the Board concluded:

a. to exclude leases[19] that meet the following two conditions: a) they are not bundled and b) they are entered into using GSA delegated authority. Such leases (1) have no significant P3 risk of loss, (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. The Board believes that if a lease is either bundled or not entered into using GSA delegated authority, the provisions of this Statement should apply.

b. to not broadly exclude Enhanced Use Leases (EULs) except for those meeting the two conditions cited above because they are more oriented towards P3s as a result of (1) possessing special authorities and not being subject to the FAR, (2) often operating 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) possibly including ancillary services and in-kind consideration as part of the arrangement or transaction. Because the Board believes that EULs could be encompassed by this Statement, a

[19] The term leases includes enhanced use leases (EULs) which are typically long-term lease agreements that allow public or private entities to use an agency's 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).

determination should be made as to whether disclosures are required via the application of the risk-based characteristics.

Risk-based Characteristics

A19. Although federal P3s are varied and complex, the Board believes there are some common characteristics that can be used to identify those P3s that create risk of loss and should be disclosed. Because the Board is aware of the administrative burdens agencies face day-to-day and that some P3 portfolios might be voluminous, in addition to identifying those P3s that create risk of loss, the risk-based characteristics can also be applied to assist a federal entity in determining which P3 arrangements or transactions do not require disclosure.

A20. 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 significant P3 risk of loss. These risk-based characteristics are intended to: (1) apply to all types of P3s: construction, housing, utilities, military depots, and others, and (2) assist a federal entity in ascertaining which P3 arrangements or transactions should be disclosed. 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).

A21. As a result of respondent comments concerning linkage between the definition and the risk-based characteristics, the working group recommended and the Board adopted an additional risk-based characteristic for grants and other arrangements. Specifically, OMB requirements (2 C.F.R. Title 2, Part 200) for grants govern the administrative framework and include requirements to help safeguard and protect taxpayer dollars. Therefore, those P3s exempt from such requirements are at an increased-risk because well-established safeguards and resolution mechanisms are absent.

Conclusive and Suggestive Characteristics

A22. The majority of respondents agreed with the risk-based characteristics, their related classification, and their proposed application. However, as mentioned above, the working group recommended and the Board adopted an additional risk-based characteristic for grants and other arrangements. Moreover, the Board clarified the two categories of risk-based characteristics (conclusive and suggestive) pursuant to respondent concerns. Conclusive characteristics are those that existence of any one characteristic means the P3 arrangement or transaction should be disclosed. However, existence of any one of the suggestive characteristics is evidence that the P3 arrangement or transaction may possess risk of loss and require disclosure. Such a suggestive characteristic should 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 requires entity judgment as each one is analyzed in connection with the other suggestive characteristics.

A23. If a P3 arrangement or transaction is subject to disclosure, it should be further evaluated in light of materiality considerations that include both qualitative and quantitative assessments. Additionally, materiality should be applied cumulatively or in the aggregate by the entity.

Materiality

Considering User Needs

A24. 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."[20] Concepts explain 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.

A25. In applying the concept of materiality,[21] 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 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 required by this Statement will help answer these questions while achieving the associated reporting objectives.

Qualitative and Quantitative Assessments Require Judgment

A26. In connection with concerns over the breadth and scope of the definition, some respondents suggested that the Board develop a clear and objective materiality standard that would limit the disclosure requirement to those transactions that present substantial financial risk to the government. The Board believes that refining the definition and adding additional exclusions best addresses respondent concerns in this regard. Respondents are reminded that "materiality" has not been formally defined in the accounting community; rather, it is 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:

[20] 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."

[21] 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.

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.

A27. The Board believes that preparers and auditors are in the best position to exercise this judgment predicated on their direct knowledge of the specific facts and circumstances and user needs. Furthermore, the Board believes that specific guidance concerning materiality assessments would limit preparer and auditor considerations and are therefore inappropriate.

A28. 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.

Materiality Includes Probability Assessments

A29. 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. Uncertainties can be expressed as a 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 (emphasis added). Furthermore, uncertainties are often subjected to assessments of the materiality of the item, and the benefit versus the cost of recognition or, in this Statement's case, disclosure.

A30. 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.

A31. 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 the probability of those uncertainties often associated with P3s due to their long-term nature and project variability.

A32. Historically, some studies including work done by GAO suggest that, in practice, preparers and auditors in the private sector often interpret "probable" to mean a subjective assessment of probability considerably in excess of 50%. However, FASAB has defined "probable" as "more likely than not," that is, a subjective assessment of probability greater than 50% (51% or more).

Risks that are Deemed Remote

A33. Most of the respondents agreed with the Alternative View that stated (1) disclosure of remote contingencies is not limited to the terms of contractual arrangements, (2) the concept of “significant exposure” is not sufficiently clear to result in consistent disclosures, and (3) risks related to entity operations or performance (referred to in the Alternative View as business risks) would be included in the risk disclosure. As such, respondents were concerned that such additional disclosures could overwhelm or mislead users. The Board believes that it has addressed respondent concerns in this regard by refining the definition contained in the Exposure Draft, adding additional exclusions, eliminating references to “significant exposure,” and in emphasizing at paragraph 24d that remote risks of loss should be limited to those that are included in the terms of the contractual P3 arrangements or transactions. The Board is of the opinion that remote risks can and should be reported where appropriate as explained below.

A34. 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.[22] 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.

A35. The Board believes that some risks of loss associated with P3s may be consistent with contingencies in SFFAS 5 that arise because of an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity, including the concepts of probable, reasonably possible, and remote. It is this uncertainty, or risk in other words, that prompts entities to seek private partners who can best manage and/or contain the effects of the uncertainty that could ultimately lead to a loss. In applying SFFAS 5 some contingencies may be

[22] 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).

identified for which the degree of uncertainty is so great that no reporting (that is, recognition or disclosure) is required by that Statement. However, the Board notes that (1) reporting such contingencies is not inconsistent with the provisions of SFFAS 5 and (2) as discussed above at paragraph A32, because FASAB has defined "probable" as "more likely than not," the FASAB framework suggests that “reasonably possible” and “remote” risks be assessed for disclosure at the remaining (more narrow) band.

A36. Due to their very nature, P3s can also possess risks of loss that may be considered remote but material. 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. The Board believes such P3 arrangements or transactions should be disclosed, subject to materiality, even though the risks of loss included in the terms of the contractual P3 arrangements or transactions 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 material risk of loss 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 balanced by whether the omission is such that it is probable that the judgment of a reasonable person would have been changed or influenced by the disclosure. As such, remote risks should not be dismissed from disclosure without further consideration of user needs and the qualitative and quantitative characteristics when applying materiality.

Disclosure Requirements of P3s

A37. The task force conducted research and identified examples of 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 and such disclosures reveal the potential risk that governments assume, which can ultimately lead to liability recognition.

A38. 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.

A39. 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 innovative 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.

A40. Respondents were mixed regarding disclosures with some stating that the disclosures are onerous and burdensome and the others in agreement with the proposed disclosures or seeking additional disclosures. As a result of considering the overall financial reporting objectives, and in light of certain respondent comments regarding administrative burden, the Board decided to not require disclosure of amounts estimated to be received and paid during each of the succeeding five years. That is, only the amounts received and paid by the government during the reporting period(s) and the amounts estimated to be received and paid in aggregate over the expected life of the P3 need be reported. In determining the expected life of the P3 arrangement or transaction the entity's economic incentives (that is, its risks and/or rewards) should be considered.

A41. The Board offers two examples regarding the determination of a P3s expected life. First, consider an infrastructure arrangement containing a master ground lease of 50 years where in exchange for an up-front payment the entity out-leases (government-owned) land for the construction of an office building and at the same time enters into an occupancy lease which can be renewed for up to 75 years. The expected life of the P3 should be limited to 50 years given the fact that the entity's economic incentive at year 50 changes due to the master ground lease's expiration. That is, at such time the entity may decide to renew the master ground lease and renegotiate its occupancy lease or sell the land and not renew the occupancy lease. As a result, the amounts estimated to be received and paid in aggregate over the 50 years would be reported. Second, consider a spare parts sustainment program where an entity partners with an inventory logistics firm to handle the entire supply chain management function of a major weapons system expected to remain in service for the next 25 years. Although by statute the entity can only enter into a 5 year (for example, base year with 4 renewable options) contract, it has an economic incentive to maintain the relationship beyond 5 years. This is primarily due to the fact that the private partner is likely to incur a

substantial investment to manage the supply chain and the investment will need to be recovered over time. As a result, the amounts estimated to be received and paid in aggregate over the 25 years would be reported.

Aggregation

A42. 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 are permitted to disclose information related to individually significant P3 arrangements or transactions separately if entity management believes that such disclosure would better meet user needs.

A43. 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. Respondents generally supported the aggregation of information.

Reporting Period

A44. Disclosures should be provided for the initial period and all annual periods thereafter where an entity is party to a material P3 arrangement/transaction.

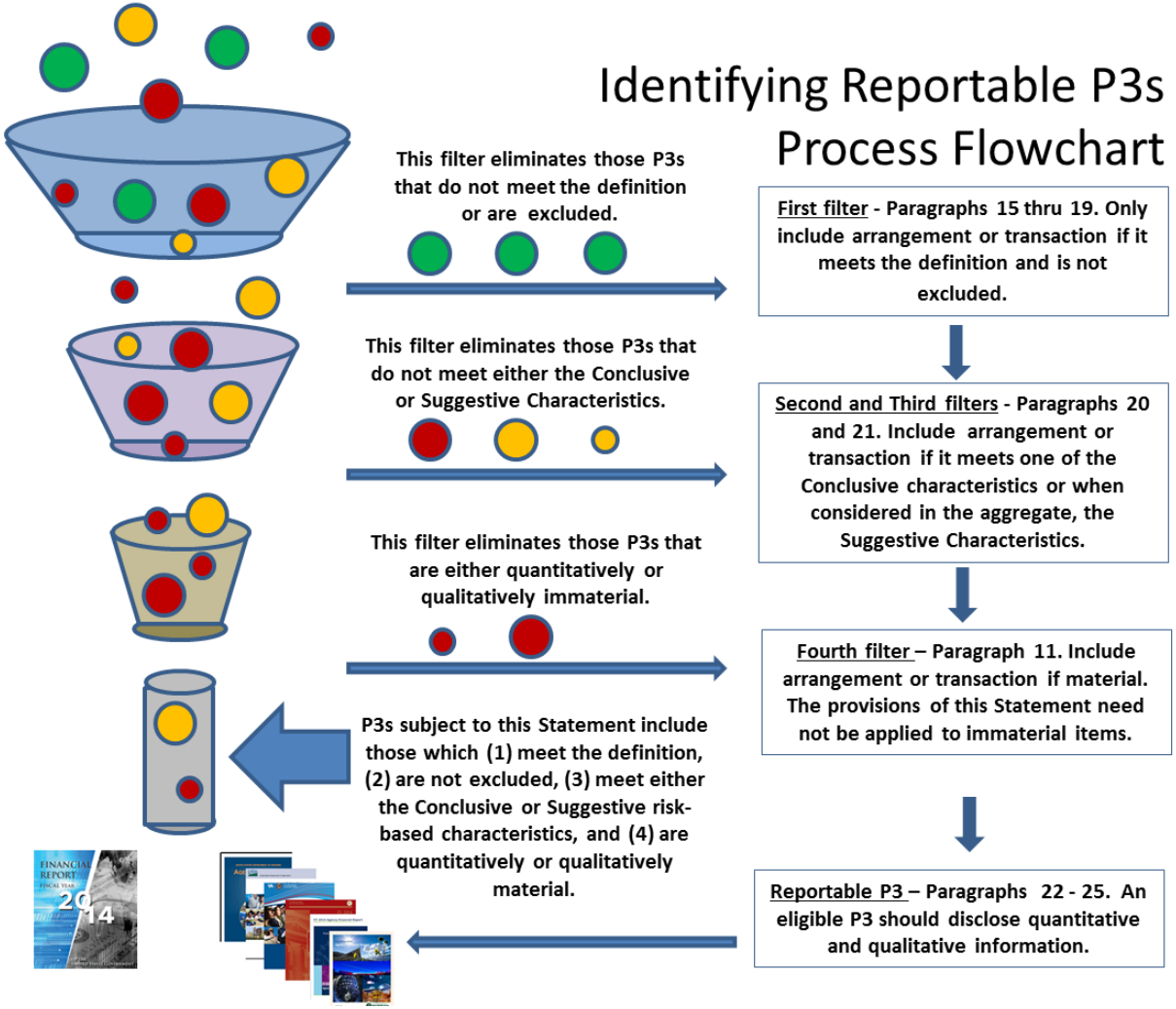
BOARD APPROVAL AND DISSENT

A45. This Statement was approved for issuance by 8 members of the Board. One member dissented. The written ballots are available for public inspection at the FASAB's offices. The dissent of the member who opposed the issuance of this Statement is presented in paragraphs A46 and A47.

A46. Ms. Ho dissents to the issuance of this Statement. She believes that the increased use of P3s in the federal government makes the need for clarity in the accounting for P3s vitally important. Ms. Ho acknowledges that the taxpayer has the right to know what obligations the government has agreed to and what the total cost is for a P3 project. Ms. Ho commends FASAB for their thorough examination of the issue, which encompassed several years.

A47. Ms. Ho strongly supports more transparency in financial reporting of federal taxpayers' dollars. However, she shares the concerns voiced by many agencies in response to the exposure draft that the disclosures required by this Statement will create a burden that does not justify the cost required to collect, analyze, report and audit the information needed to comply with this Statement's requirements. In particular, Ms. Ho feels that the expected life requirement will result in inconsistent application by agencies throughout government, which is contrary to the goal of the Statement.

APPENDIX B: FLOWCHART[23]



[23] The standards enunciated in this Statement and not the material in this appendix should govern the accounting for specific transactions, events, or conditions.

APPENDIX C: ABBREVIATIONS

AGA	Association of Government Accountants
BFC	Basis for conclusions
CFR	Consolidated financial report of the U.S. government
C.F.R.	Code of federal regulations
CPA	Certified public accountant
ED	Exposure draft
EUL	Enhanced Use Lease
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GPFFR	General purpose federal financial reports
GSA	General Services Administration
IRR	Internal rate of return
IT	Information Technology
LP	Limited Partnership
MD&A	Management's discussion and analysis
OMB	Office of Management and Budget
OPEB	Other postemployment benefits
P3	Public-Private Partnership
PP&E	Property, Plant, and Equipment
PPP	Public-Private Partnership
PSC	Public Sector Comparator
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SPV	Special Purpose Vehicle
U.S.	United States
VfM	Value for Money

APPENDIX D: GLOSSARY

The standards enunciated in this Statement not the material in this appendix should govern the accounting for specific transactions, events, or conditions.

Public-private partnerships - Federal public-private partnerships (P3s) are risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities. Such arrangements or transactions provide a service or an asset for government and/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.

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 Limited Partnership (LP), and other such arrangements. For example, military base housing.

P3 Program 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.

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 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. In other words, 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.

FASAB Board Members

Tom L. Allen, Chair

Robert F. Dacey

Michael H. Granof

Christina Ho

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