



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: (212) 286-9344
Fax: (212) 286-9570

Agenda Item
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DATE: August 24, 2009
MEMO TO: Members of the IPSASB
FROM: Joy Keenan
SUBJECT: Service Concession Arrangements

OBJECTIVES OF THIS SESSION

- To **consider and resolve** outstanding issues
- To **agree** the next steps to develop an Exposure Draft (ED)

AGENDA MATERIAL

3.1 Analysis of Issues

BACKGROUND

At the May 2009 IPSASB meeting in Washington, the IPSASB considered a draft ED developed from the March 2008 Consultation Paper, *Accounting and Financial Reporting for Service Concession Arrangements*. As a result of those discussions a number of issues were identified that require further consideration.. These are outlined and analyzed in agenda paper 3.1 and can be summarized as follows:

- The scope of assets that could be the subject of an SCA (Issue 1);
- How to account for whole-of-life assets (Issue 2); and
- Terminology:
 - Term used for the underlying asset in an SCA (Issue 3a); and
 - Use of “grantor” or “entity” (Issue 3b)

Staff has benefited from the input and expertise of Greg Driscoll in preparing this material and Greg is available for further review of the ED as it is further developed.

At this meeting Members are asked to consider the issues raised with a view to providing direction to staff on the most appropriate way to resolve them. Based on discussions and decisions at this meeting, staff will progress the ED with the goal of bringing it to the meeting in December for approval.

SERVICE CONCESSION ARRANGEMENTS (SCA)

Purpose

This paper analyzes issues identified at the May 2009 IPSASB meeting for further discussion and for the IPSASB's decisions.

Issues

The IPSASB's decisions and directions are required on:

- Which assets should be the subject of the SCA standard;
- How to account for whole-of-life assets); and
- Terminology: a) Which term should be used to describe the underlying asset in an SCA 2; and b) grantor" or "entity".

Issue 1 – Which assets should be the subject of the SCAs standard?

The scope of the proposed SCA standard and the term used to describe the item(s) used in an SCA are closely linked. The March 2008 Consultation Paper (CP) explicitly defined the scope of assets it intended to be considered by using the term "infrastructure," as does IFRIC 12. Based on the IPSASB's discussions at the May 2009 Washington meeting, there did not appear to be a common understanding among Members about the types of assets to which the standard would apply. There was some discussion at the May 2009 meeting about whether intangible assets, vehicles/equipment, buildings used as government offices are within the scope, but no decisions were made in this regard.

Further, in developing the analysis of terminology (see Issue 3(a)), which staff was directed to do at the May 2009 Washington meeting, staff noted difficulty in assessing the most appropriate term because of this lack of common understanding of the type of assets the SCA standard would address.

In discussions with Greg Driscoll who developed much of the CP with the sub-committee, he indicated that, in developing the CP, the sub-committee had not contemplated short-lived assets such as vehicles or equipment as types of property that might be subject to an SCA. This is confirmed in the Executive Summary of the CP which indicates the arrangement involves a "...public sector asset (normally infrastructure or a public facility) and/or service."

Therefore, staff believes it is important to clarify the scope of the categories of assets to which this standard will apply. Resolving this issue will provide a basis for analyzing the whole-of-life arrangement issue (see Issue 2) as well as deciding on the term to use to describe the item(s) used in an SCA.

In coming to a decision on which assets the SCA standard should address, the IPSASB needs to reach agreement on whether it wants to include some or all of:

- (a) Stand-alone vehicles and equipment to be within the scope of the SCA standard (i.e., can an SCA involve vehicles/equipment alone or must they be used in conjunction with an immovable tangible asset?);

(b) Intangible assets; and

(c) Buildings used as office space.

Staff has identified two options for resolving the scope issue—to explicitly define the scope to include or exclude certain assets such as those noted above, or to include within the scope only assets which are “specifically identified”¹ in the contractual arrangement.

Alternative 1 – Define specific assets within the scope

Existing drafts/standards refer only to infrastructure and other immovable assets, either explicitly (the CP and IFRIC 12) or implicitly (South Africa, GASB). The use of that term implicitly provides the scope for the standard, even though the term is not defined specifically (rather, examples are provided). IPSAS 17 provides a description of the characteristics of infrastructure along with examples (see Appendix 3).

Excerpts of the terminology used to describe the asset(s) used in an SCA, and hence to define scope, are as follows (see details in Appendix 3).

1. March 2008 CP – uses the phrase, “infrastructure and public facilities” and “property/underlying property.” There is a clear indication that the CP applies only to infrastructure assets and buildings.
2. IFRIC 12, *Service Concession Arrangements* – Uses the term, “infrastructure.” There is a clear indication that the IFRIC applies only to infrastructure assets.
3. South Africa Guideline *Accounting for Public-Private Partnerships* – uses the terms, “state property” and “asset.” Examples provided include toll roads and hospitals. It appears that the scope of the Guideline is infrastructure.
4. GASB ED (June 20, 2009) – uses the phrase, “infrastructure or another public asset (a “facility”).” Examples provided include parking garage, tollway, municipal complex, prison, hospital, highway and other, infrastructure-type items.

As noted above, the CP and IFRIC 12 focus on infrastructure assets (including buildings) which are generally long-lived and immovable, and with significant residual value. The CP indicated there is a rebuttable presumption that there will be a significant residual interest remaining in the SCA asset.

The IPSASB could either the scope of the standard to infrastructure assets or expand the scope to identify all types of assets it applies to.

Limit scope to infrastructure assets only and define these in the standard

This alternative is consistent with the CP and with IFRIC 12. Defining infrastructure in the standard would aid in a common understanding of what the standard covers and

¹ This would be a defined term and refer to a specific asset that must be used (i.e., not substitutable) in the arrangement.

would reduce concerns that infrastructure has different connotations in various jurisdictions.

References in existing IPSASs (see IPSAS 13.25, IPSAS 13.47 and IPSAS 15.19 in Appendix 3), which deal with arrangements similar to SCAs, refer only to infrastructure assets. As a general statement, the term “infrastructure” as used in these cases would be understood by most to exclude equipment and vehicles that are not an integral part of a larger network or system. This is supported by the existing examples noted above used in IPSASs and other standards to describe infrastructure assets.

If the IPSASB agrees that the focus of the proposed SCA standard should be on infrastructure assets, Issue 3(a) would be resolved, as the other alternatives identified under Issue 3(a) would be redundant. The term “infrastructure assets” would have to be defined once and applied to all IPSASs (with necessary consequential changes), which would reduce the disparate terminology applied to such assets in existing IPSASs (see Appendix 3). .

If the IPSASB determines that vehicles and equipment, used alone, cannot be the subject of an SCA, such assets would be excluded by virtue of the definition of the term “infrastructure.”(note that the proposed, broad definition of infrastructure under Issue 3 would need to be revised accordingly)

It should be noted that if the scope is limited to infrastructure assets, many other public-private arrangements may not be covered by the standard. However, staff notes that some of these may be arrangements that involve a lease and/or a service contract (exchange transaction) and should appropriately be addressed by IPSAS 13 and/or other standards.

Scope broader than infrastructure assets

If the IPSASB agrees that the focus of the proposed SCA standard should include assets other than those generally considered to be infrastructure assets (as noted in the examples in existing IPSASs and other pronouncements in Appendix 3), the IPSASB will need to determine whether the other assets noted above could be the sole subject of an SCA. If so, the decision to broaden the scope of assets beyond what has been addressed in the CP and IFRIC 12 could create affects the decision on how WOL assets should be addressed (e.g., in cases when there is insignificant residual interest at the end of the term of the contractual arrangement). If the IPSASB includes assets which generally have a shorter useful life within the scope (e.g., some vehicles and equipment), the likelihood is greater that they will have an insignificant residual interest at the end of the contractual arrangement. It would need to be considered whether contractual arrangements for the types of assets noted above are common occurrences (based on evidence to support this contention), rather than rare, as indicated in the CP.

Alternative 2 – Arrangement must identify a specific asset or assets

In addition to IAS 17, *Leases*, and IFRIC 12, the IASB has issued IFRIC 4, *Determining whether an Arrangement Contains a Lease*, which provides guidance on determining whether a lease exists. IFRIC 4 clearly distinguishes arrangements that fall within the scope of IAS 17 and those within the scope of IFRIC 12.

This is done by defining when an arrangement contains a lease and by indicating that if an arrangement is within the scope of IFRIC 12 (i.e., an SCA), it is not a lease. IFRIC 4.6(a) notes that an arrangement is, or contains, a lease if “fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset).” IFRIC 4.4(b) \ indicates that if an arrangement is within the scope of IFRIC 12, it is not a lease.

The IPSASs do not contain the equivalent of IFRIC 4; however, that type of approach could be used to clarify the scope of the proposed SCA standard, because IPSAS 13, *Leases*, uses the IAS 17 definition of a lease:

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The term “infrastructure” used in IFRIC 12 conveys a degree of specificity, by virtue of the nature of infrastructure assets. When combined with IFRIC 4.4(b) noted above, it is clear what type of assets would be SCAs, and thus, not leases. This alternative may, therefore, influence the decision on Issue 3(a).

IFRIC 4.7 provides the following guidance:

“Although a specific asset may be explicitly identified in an arrangement, it is not the subject of a lease if fulfilment of the arrangement is not dependent on the use of the specified asset.”

IFRIC4.BC24 elaborates:

“The IFRIC agreed that a specific asset needs to be identified in the arrangement for there to be a lease. The IFRIC concluded that this follows from the definition of a lease, which refers to a “right to use an asset (emphasis added). The IFRIC also observe that dependence on a specifically identified asset is a feature that distinguishes a lease from other arrangements that also convey a right to use assets but are not leases (eg some service arrangements).”

Although IFRIC 12 does not refer to “specified assets,” paragraph 6(c) (i) of SIC-29, *Service Concession Arrangements: Disclosures*, requires disclosure of rights to use **specified assets**. There is, therefore, some precedent in referring to specified assets in the context of SCAs.

A similar approach to that in IFRIC 4 could be used to clearly define which assets are within the scope of the SCA standard, for example:

“Although a specific asset may be explicitly identified in an arrangement, it is not the subject of a service concession arrangement if fulfilment of the arrangement is not dependent on the use of the specified asset.”

Guidance could cover the issue of specialized nature of the asset versus interchangeability with another asset. For example, a fleet of refuse collection vehicles (as in the example in Appendix 2) could be substituted for another fleet, if necessary, in an arrangement that involves only the vehicles used for refuse collection. Under the proposed wording above, the vehicles would be treated as some other form of arrangement (e.g., a lease or a sale, depending on the specific details), and not an SCA subject to the control test. Likewise the refuse collection activity would be assessed as an exchange transaction for the services.

If the contractual arrangement involved a refuse collection facility the refuse collection facility would generally be purpose-built and would thus need to be explicitly identified. A refuse collection facility, when combined with a contract to provide the refuse processing services, would be an SCA, and subject to the control test and accounting/reporting requirements of the SCA standard.

If the arrangement included both the vehicles and the facility (i.e., refuse collection vehicles and the refuse collection facility and the related services), the issue would be whether the peripheral assets (the vehicles) are included within the SCA accounting framework, or accounted for separately based on their specific characteristics. Other examples of such “peripheral” equipment include equipment inside of a prison or a hospital, and snowplows for a roadway SCA.

From an accountability point of view, it makes sense to account for each class of assets included in an arrangement separately. Reporting by class of assets is required under IPSAS 17. In addition, IPSAS 13.25-27 (see Appendix 3) require that when an arrangement contains an identifiable lease, IPSAS 13 applies in accounting for the lease component of the arrangement. Thus, under the example above, the refuse collection portion of the arrangement would involve a either sale or lease of the refuse collection vehicles combined with a service contract (i.e., an exchange transaction).

From a practical point of view, the way in which a contract is worded may make such separation into its component parts difficult. In addition, the vehicles/equipment may have an immaterial value in comparison with the immovable asset, which could suggest that all the SCA assets should be recognized and measured as one unit. Nevertheless, guidance could be provided on unbundling the various components of a contract at inception of the contractual arrangement, for example, based on relative fair values.

This alternative may exclude buildings used as office space, because such buildings could be substituted in a contractual arrangement. Prisons, schools and hospitals may be converted from another use, but typically this would involve additional outlay and time (i.e., they could not be substituted immediately into an SCA) and so, would not be considered specific assets. The IPSASB needs to determine whether it considers office buildings to be within the scope of the standard.

This alternative would help address the “whole of life” issue discussed as Issue 2 because it would likely exclude vehicles and equipment that are the sole assets in a contractual arrangement, unless they are highly specialized and purpose-built for the contractual arrangement.

The IPSASB needs to determine whether it considers vehicles and equipment to be within the scope of the standard. The following matters are noted:

- (a) If they should be included in the proposed SCA standard, and are stand-alone (i.e., not part of a larger SCA involving immovable assets), this alternative works only if the proposal for Issue 2 (residual interest/whole-of-life assets) to follow the IFRIC 12 approach is adopted.

- (b) If they should be included in the proposed SCA standard, and are part of a larger SCA with infrastructure assets, the IPSASB still needs to determine whether the SCA should be accounted for in terms of its components or as a whole.
- (c) If they should not be included, and are part of a larger SCA with infrastructure assets, this would support unbundling the SCA for accounting purposes as well as the need for the guidance noted above for distinguishing cases when IPSAS 13 and the proposed SCA standard would apply.

What should the scope of the SCA Standard be?

As highlighted, a common understanding of the scope is required to develop an ED. In coming to a decision on which assets the SCA standard should address, the IPSASB needs to reach agreement on whether it wants to include:

- (a) Stand-alone vehicles and equipment to be within the scope of the SCA standard (i.e., can an SCA involve vehicles/equipment alone or must they be used in conjunction with an immovable tangible asset?);
- (b) Intangible assets; and
- (c) Buildings used as office space.

Irrespective of whether the IPSASB decides to focus the scope of the standard on infrastructure, the proposed SCA standard needs to provide guidance as noted above, that it is not to be used in place of IPSAS 13, and *vice versa* by providing a reference in the proposed SCA standard similar to that in IFRIC 4.4(b), as described above. This suggestion may also require amending IPSAS 13.

This alternative would ensure that a contractual arrangement that should be considered an SCA is not regarded as a lease and that an arrangement that should be considered a lease is not regarded as an SCA. When combined with IPSAS 13.26-27 (see Appendix 3), which requires that if an arrangement contains an identifiable operating lease or finance lease as defined in IPSAS 13, IPSAS 13 is applied in accounting for the lease component of the arrangement, there should be clarity as to which standard applies. This may mean that some assets that would be potentially within the scope of the proposed SCA standard by virtue of a broad definition of scope, would be excluded because they are in substance leases.

1. **Issue 1 – Scope of Assets Included** Which assets do you believe should be within or outside the scope? (Consider vehicles/equipment, intangible assets and buildings used as office space)
2. Which of the alternative approaches do you prefer to define the scope?

Issue 2 – Residual Interest Criterion/Whole-of-life Assets

Background

The issue is whether contractual arrangements involving whole-of-life (WOL) assets should be subject to asset treatment when only the control over use criterion is met (i.e., the residual interest criterion is ignored in WOL arrangements).

As an overarching comment, staff notes that the CP and IFRIC 12 are premised on the assumption that whole-of-life arrangements are rare, and thus exceptions to the general rule. Generally speaking, rare occurrences do not drive the accounting principles for the majority of transactions. Rather, they are treated as exceptions. Without evidence to the contrary, this presumption will form the basis of the following analysis.

This issue has been controversial. A range of comments was received on the CP on the residual interest portion of the control criteria. The proposed residual interest criterion is generally based on existing wording in IFRIC 12, with a notable exception. The residual interest criterion in IFRIC 12 requires that the grantor control any *significant* residual interest in the underlying property, unless the property is used for its entire economic life through the SCA (whole-of-life asset), in which case the residual interest criteria item need not be met. The residual interest criterion proposed in the CP required that the residual interest in the underlying property be controlled by the grantor without qualification for significance or exception for whole-of-life assets. A third position exists—the position taken in the June 30, 2009 GASB ED is that a significant residual interest is required and there is no exception for whole-of-life arrangements. The IFRIC 12 and GASB approaches can be viewed as two ends of the spectrum, with the CP as a “middle ground.”

IPSASB has discussed this issue at three meetings and has not yet reached a conclusion. At the May 2009 Washington meeting, the IPSASB asked for further analysis of this issue, including examples. Two examples were provided by a Member (see Appendix 2).

Analysis

Paragraph 78 of the CP describes a whole-of-life SCA as follows:

“... SCAs in which the entire economic life of the underlying property is expected to be used during the term of the arrangement ...”

Paragraph 81 of the CP provides the following examples of whole-of-life assets:

- “*The SCA involves property used to deliver a service that is not expected to continue after the end of the arrangement.*”

It should be noted that the treatment of the property depends on whether it is an existing asset of the grantor. If it is, there is no additional accounting consideration required under the under CP 133-134.. Intent is not generally considered in determining accounting treatment, unless there is supporting evidence for such intent.

With respect to the first example in Appendix 2 the existing bridge used in the SCA remains on the grantor's financial statements. Additionally, no impairment test is required as the asset's service potential is not impaired. Thus, this example would not be affected by the consideration of the control criteria.

- *“The SCA requires the operator to demolish the property at the end of the arrangement and return the underlying land in clean condition.”*

It should also be noted as above, that the treatment of the property depends on whether the asset currently exists or is newly constructed on the land. However, in the case of a new asset, there does not appear to be a difference in substance from a case where the entity constructs its own asset on the property with the plan to demolish it at the end of a certain period—the entity would recognize the asset and depreciate it over that period, taking into account that it would have no control over residual interest, as there would be none. For the second example in Appendix 2 (fleet of refuse collection vehicles), if the IPSASB if it limits the scope of an SCA to infrastructure assets, or if agrees with the second alternative in Issue 1, the vehicles would not in and of themselves be considered a WOL SCA (because other vehicles could be substituted for them). In this case, the vehicles would need to be considered under IPSAS 13 if they meet the definition of a lease. If the vehicles are not the only asset in the contractual arrangement (if they are part of an arrangement that also includes the operator's refuse collection facility, the treatment would depend on the IPSASB's conclusion as to whether all assets should be assessed together, or whether to assess each component of the contractual arrangement separately (see Issue 1).

As noted by Greg Driscoll, the CP was premised on the assets involved in the arrangement being of a long-lived “infrastructure” nature, as discussed in IPSAS 17 (e.g., roadways, prisons, bridges, buildings, electrical, water, communications systems). He also indicated that the CP expanded the terminology to “infrastructure and public facilities” to ensure that buildings would be considered as relevant assets in an SCA.

The CP did not explicitly contemplate assets that would ordinarily depreciate more rapidly, such as vehicles and equipment (such assets were not added to the terminology used, as was buildings), nor did it explicitly exclude such assets.

Because of the nature of the assets considered in the CP, the CP noted that in most cases, the underlying asset will revert to the grantor in good condition (i.e., with a significant remaining residual interest), because SCAs generally would require the underlying asset to be subject to requirements to return it in good condition and/or to perform specified maintenance on the asset that would in effect retain its condition. It could be argued, therefore, that an arrangement that involves only vehicles and equipment is not an SCA but some other type of public-private arrangement to which this proposed IPSAS would not apply. Your decision on this issue was sought under Issue 1.

March 2008 CP

Paragraph 102 of the CP states:

The Board proposes that a grantor should report the property underlying an SCA as an asset in its financial statements if it is considered to control the property for financial reporting purposes. The proposed criteria for determining grantor control are as follows:

1. The grantor controls or regulates² what services the operator must provide with the underlying property, to whom it must provide them, and the price ranges or rates that can be charged for services; and
2. The grantor controls—through ownership, beneficial entitlement or otherwise—the residual interest in the property at the end of the arrangement.

The CP set out a number of arguments in its discussion of whether to retain the “control over any significant residual interest” clause in control criterion (b):

- In most cases, a significant residual interest in the underlying property will exist at the end of an SCA. This is mainly because of the long-lived nature of the underlying property, and the frequent inclusion of a contractual requirement for the operator to return the property in a state of good condition at the end of the arrangement. Even where the contract does not require this return, fulfillment by the operator of often imposed maintenance requirements throughout the term of the arrangement helps ensure that the property is in operational condition at the end of the SCA. Given the core nature of the public services provided through the property, it would seem that such property, if in operational condition at the end of the SCA, would provide future service potential or future economic benefit, and therefore, have a significant residual interest. (paragraph 80)
- In addition to reiterating the rationale in IFRIC 12, CP.82 indicates that “Control over the residual interest in the property is also a key factor in distinguishing the control of a grantor over the property underlying an SCA from the control a public sector entity may have over property through its role as a regulator. Therefore, the Board believes that the grantor must control the residual interest in the property to be considered to control it for financial reporting purposes, even if it is expected that its entire economic useful life will be used up during the arrangement.
- Paragraph 83 states, “In considering this notion of control over the residual interest, it must be determined whether the residual interest itself must also be significant to establish control over the property for financial reporting purposes. It can be argued that if the residual interest is insignificant, then whether or not the grantor controls the residual interest is (virtually by definition) inconsequential, and should have no bearing on who controls the property for financial reporting purposes. Therefore, if control over residual interest must be present to establish control for financial reporting purposes, it can be argued that the residual interest also should be significant for this test to be meaningful.”

² The concept of regulation in this criterion is restricted to arrangements agreed upon by the grantor and the operator, and to which both parties are bound. It excludes generally legislated regulation that does not establish control for the purposes of financial reporting as concluded in IPSAS 6 and IPSAS 23.

- Paragraph 84 states, “The above argument would be persuasive if the residual interest control criterion was established solely to preserve the public sector use of the property after the term of the arrangement. However, as discussed previously, controlling the residual interest in the property serves to preserve the grantor’s continuous use of the property *during* the arrangement as well. This does not appear to depend on the significance of the residual interest at the end of the arrangement—the fact that the grantor controls the residual interest in the property would appear to preserve this right of continuous use.”

IFRIC 12

Paragraph 5 of IFRIC 12 states:

“This Interpretation applies to public-to-private service concession arrangements if:

- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (b) the grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the infrastructure at the end of the term of the arrangement.

IFRIC 12 makes an exception for whole-of-life assets. Paragraph 6 states:

“Infrastructure used in a public-to-private service concession arrangement for its entire useful life (whole of life assets) is within the scope of this Interpretation if the conditions in paragraph 5(a) are met.”

In such cases, the operator does not recognize the whole-of-life asset. IFRIC 12, AG4 further states:

“For the purpose of condition (b), the grantor’s control over any significant residual interest should both restrict the operator’s practical ability to sell or pledge the infrastructure and give the grantor a continuing right of use throughout the period of the arrangement. [emphasis added]

Therefore, by the end of the arrangement the property will have been controlled by the grantor for the entire useful life of the property, and there is no significant residual interest in the property remaining to control after the end of the arrangement. There is no additional benefit to the grantor to receive back an asset which has no value. This scenario is analogous to any other asset which is controlled by the entity for its useful life and fully depreciated by the end of its useful life (after which there is no significant residual interest to control).

GASB ED

Paragraph 7 of the June 30, 2009 GASB ED states:

Accounting and financial reporting for a transferor is determined by whether the transferor controls the use of the facility associated with an SCA. For financial reporting purposes, a transferor controls the use of the facility if both of the following criteria, either explicitly or implicitly, are met:

a. The transferor determines or regulates all of the following:

- (1) What services the operator is required to provide
- (2) To whom the operator is required to provide the services

- (3) The price ranges or rates that can be charged for the services
- b. The transferor is entitled to—through ownership or otherwise—significant residual interest [emphasis added] in the service utility of the facility at the end of the arrangement.

There is no exception for WOL arrangements. In this case, a whole-of-life arrangement is considered a privatization regardless of whether the control over use criterion is met.

Paragraph 32 of the ED defines privatization as follows:

- 32. A privatization occurs when a government permanently transfers infrastructure or another public asset to an operator, generally through sale. The transferor divests itself of responsibility for the facility and the related delivery of services (other than possible regulatory authority).

Paragraph 47 of the Basis for Conclusions and Alternative Views provides the rationale for this approach:

Inclusion of the control criterion—that the transferor should be entitled to a significant residual interest in the facility subject to an SCA—also serves to separate SCAs from privatization or regulatory arrangements [emphasis added]. In the latter arrangements, the operator has control over the use of the facility for all of its useful life. In most cases, a significant residual interest in the underlying facility will exist at the end of an SCA because of the long-lived nature of the underlying facility and the frequent inclusion of a contractual requirement for the operator to return the property in good condition at the end of the arrangement. In instances in which the contract does not require this return of the facility at a stated condition level, fulfillment by the operator of maintenance requirements throughout the term of the arrangement ensures that the property is in operational condition at the end of the SCA. Given the fact that the facility is in operational condition at the end of the SCA, it would have future service potential or economic benefit and, therefore, has a significant residual value. Assessment of whether the residual value is significant should be made based on the service utility of the facility at the end of the arrangement rather than using a fair value notion. Because of the long duration of many of these arrangements, application of a discounting technique to estimate fair value may produce the inappropriate result that a residual interest is insignificant even when the facility is returned with substantial remaining service utility. If the residual interest is insignificant (for example, cases in which the entire useful life of the facility is exhausted during the term of the arrangement), the transferor is left with an asset that provides no service benefit, and the arrangement was in substance a privatization. Therefore, if control over residual interest is required to be present to establish control for financial reporting purposes, the residual interest also should be significant for this criterion to be meaningful.

Pros and Cons of the Three Alternatives

ALTERNATIVE	PROS	CONS
CP	1 Grantor control over residual interest (even if not significant) minimizes the argument of SCA as a privatization because the grantor will ultimately resume control over the property and related service in the future, thereby strengthening the grantor's continued accountability for the property and service. Accordingly, it would address the majority of SCAs.	1 The argument in CP.84 has been pointed out to have some flaws. It would take a default or similar event to jeopardize the public sector use of the asset during the arrangement as suggested here. Some suggested that that is a separate event that should be accounted for when it happens and not at the beginning of the assessment of the arrangement.
	2 Under Issue 1, it is recommended that the underlying property must be specifically identified to be within the scope of the standard and apply the control tests. If this proposal is adopted, the example	2 Controlling an inconsequential residual interest should not impact the accountability of the grantor for the property and related service.
	3 CP.74 attempted to alleviate the concern with overreliance on criterion (a) in IFRIC 12, by distinguishing a government's general regulatory power from specific regulation of activities subject to the contractual SCA.	3 Control over an insignificant residual interest can be manipulated with little operational impact to achieve a desired accounting result.
IFRIC 12	1. The IFRIC 12 approach is established for operator accounting, and would thus be understood by the parties to the contractual arrangement.	1. The IFRIC 12 approach relies too heavily on criterion (a) to determine whether the grantor would recognize the asset. Criterion (a) refers to "regulate."
	2. It would also avoid the situation where the asset would not be recognized by either party because they are applying different criteria.	
GASB	1 The IFRIC 12 approach relies too heavily on criterion (a) to determine whether the grantor would recognize the asset. Criterion (a) refers to "regulate.	1. The need for a significant residual interest should not apply to an exception case (i.e., whole-of-life assets used in an SCA).

ALTERNATIVE	PROS	CONS
	<p>2 Without control over a significant residual interest, the control over use criterion essentially equates to regulatory authority, which is not justification for recognizing an asset by a public sector entity. This principle makes sense for the majority of SCAs.</p>	<p>2. Not all WOL arrangements are necessarily akin to privatization. In substance, a privatization has a different connotation from an SCA, even a WOL SCA. A privatization generally is more permanent, as indicated in the GASB ED. Information Note 2 of IFRIC 12 indicates that 100% divestment/ privatization would typically have an indefinite duration; however the duration may be limited by a licence. It may also be limited by legislation/ regulation or a contractual arrangement. In a privatization with an indefinite life, there is no expectation that the public sector will resume a more direct responsibility for the asset/entity/activity except in rare/catastrophic circumstances that could not have been anticipated at the time of privatization except in the most general of terms (e.g., the global economic crisis, war).</p>
	<p>3 A primary argument for requiring that the residual interest be significant is that controlling an insignificant residual interest does not create the same level of accountability for the property or related service that is one of the basic tenets of the approach in the CP.</p>	<p>3. While there may be a stated intent at the outset of an SCA to privatize subsequently, such a decision will not be confirmed until some point in the future, and the initial intent may be changed readily by a subsequent government. Future intent is not a consideration in determining the accounting treatment at present – an intent to privatize should be accounted for when the privatization occurs.</p>
	<p>4 Recognizes that most SCAs will have significant residual interest and therefore makes the criterion a meaningful consideration in determining whether to recognize an asset.</p>	<p>4. In cases where the property is to be demolished at the end of the term of the SCA, the asset would still have been used to provide service on behalf of the grantor throughout its useful life, and would be written off over that period.</p>

How Should Whole of Life Assets be Treated?

1. Staff proposes a change from the CP position noted above. Staff believes that for the majority of the cases indicated in the CP, the general principle requiring a significant residual interest, is technically more appropriate. In this regard, there is agreement with the GASB position. However, staff reiterates that WOL arrangements are rare and recommends that the ED clearly indicate that assumption. As such, their treatment should be on an exception basis. Accordingly, staff proposes to follow the IFRIC 12 approach of providing an exception for WOL assets that meet the definition of an SCA.
2. Staff recommends clarifying the scope of the standard by resolution of Issue 1, including which IPSASs apply when an item is not within the scope of this standard. This will assist in reducing confusion about when the control criteria would be applied – i.e., if an asset is outside the scope of the standard, the control criteria are not relevant.

For example, staff is of the view that the arrangements identified in the examples in Appendix 2 involving WOL assets may not require the control criteria to be applied:

- (a) The example dealing with an existing bridge would not require additional accounting per CP 133-134. It remains an asset of the grantor.
 - (b) The example dealing with vehicles provided would not be considered within the scope of an SCA if the staff recommendation in Issue 1 is adopted.
3. Staff also notes that the ED will be developed to include cases when the control criteria are not met. Staff recommends further that the ED would distinguish between cases when an asset is not within the scope (as noted above, based on the IPSASB's decision on Issue 1 and when it may be within the scope and not meet the control criteria.
 4. Staff also believes the definition of an SCA will need to be carefully worded in light of the assets that are included in/excluded the scope of an SCA. This will avoid a generic use of the term to describe various types of public-private arrangements that are not intended to be addressed by this standard.

Issue 2 – Residual Value Criterion/Whole-of-Life Assets

Which approach do you favour for SCAs involving whole-of-life assets?

Issue 3 – Terminology

(a) Term used for the Asset in an SCA

The proposed ED discussed at the May 2009 Washington meeting generally used the term, “property” consistent with the March 2008 CP. It was noted that IFRIC 12 uses the term “infrastructure” to describe the item that is the subject of the SCA. The terms

“facility,” “resource” and “public facility” were also suggested. There was some support expressed for use of the term “facility (ies).” No agreement was reached on the appropriate term to use in the ED. Staff was therefore directed to develop an analysis of the various terms that could be used and distribute the analysis for the IPSASB’s input off-line, prior to finalizing the next draft of the ED.

Once agreement is obtained on Issue 1, this definition / terminology issue is somewhat easier to resolve. The three options are analyzed below:

Alternative 1 – Infrastructure

As indicated in IPSAS 17.21 (see Appendix 3) there is no standard definition of infrastructure. That IPSAS contains characteristics of assets that would be considered infrastructure. Other IPSASs as well as IFRIC 12 also give examples, but no definition of infrastructure (see Appendix 3).

Greg Driscoll has indicated that the CP expanded the terminology to “infrastructure and public facilities” to ensure that buildings would be considered as relevant assets in an SCA. However, at least one, non-accounting definition already includes buildings within the scope of infrastructure. Oxford.com defines infrastructure as follows:

“... the basic physical and organizational structures (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise.”

The following proposed definition is adapted from the definition stated above, as well as from IPSAS 17.21 (see Appendix 3). The reference to intangible assets is intended to respond to some Members’ comments that SCAs may involve intangible assets provided by the operator to the grantor.

Infrastructure: Physical and intangible assets used by a public sector entity in the delivery of services, including those provided under a service concession arrangement.

Infrastructure assets usually display some or all of the following characteristics:

- (a) They are part of a system or network;
- (b) They are specialized in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, bridges, tunnels, dams, port facilities, water and power supply systems, water treatment plants, refineries, communications networks, office buildings and a state-wide online system for delivery of services (e.g., driver’s licence renewal, birth certificate ordering).

This alternative has the advantage that use of the term infrastructure in reference to SCAs is well understood — it is used in IFRIC 12 and in the CP. However, IFRIC 12 does not define the term, and the CP relies on the IPSAS 17 definition. Therefore different interpretations could arise and this would need to be addressed by defining the term.

A clear definition of the term in the IPSASs would allay concerns about the different understanding of the term in different jurisdictions and this definition could include intangible assets.

Focusing on infrastructure assets and public facilities, as was done in the March 2008 CP may help resolve the whole-of-life issue (see Issue 3(a)).

Infrastructure would generally not be understood to include vehicles and equipment. Thus, it is only appropriate if the IPSASB agrees that vehicles and equipment are not types of assets that can be the subject of SCAs (either by way of specific scope exclusions or by requiring that assets in an SCA be specifically identified).

Alternative 2 – Property

Property as used in IPSASs is generally part of “property, plant and equipment.” The term “property” is defined in IPSAS 16.7 as “... land or a building – or part of a building – or both.” It is not defined in the CP; however, it was the generic term used in the CP. It is also used in IPSAS 13 in reference to “leased property.” (see Appendix 3)

Oxford.com defines “property” as follows:

“... a thing or things belonging to someone; a building and the land belonging to it; in law, the right to the possession, use, or disposal of something; ownership.”

It defines “intellectual property” as:

“... intangible property that is the result of creativity, e.g. patents or copyrights.”

The following definition is consistent with the dictionary definitions of property, including intangible (intellectual) property. It draws on examples in existing IPSASs (see Appendix 3) and it could include vehicles and equipment examples, as noted below, if the IPSASB agrees that such assets should be included in the scope (either specifically, or because they would meet the “specific asset” test .

<p>Property: Physical and intangible assets used in the delivery of services provided under a service concession arrangement. Property includes infrastructure assets (e.g., road systems, bridges, dams, port facilities, water and power supply systems, water treatment plants, refineries and communications networks), other types of property, plant and equipment (e.g., office buildings, community centers, libraries, museums, a fleet of refuse collection trucks, prisons, hospitals and medical equipment) and intangible assets (e.g., patents or trademarks).</p>

The term “property,” as used in the CP, is a broader term and thus better allows for the inclusion of intangible assets in the scope of SCAs (ED 40 contains references to “intellectual property” as an example of an intangible asset) if the IPSASB agrees the term will be the test for determining whether an arrangement is within the scope of the standard.

Although staff notes that the IPSASB has indicated there is no absolute requirement to adhere to IFRIC 12 wording, IFRIC 12 also uses the terms “property” and “underlying property” in certain cases. Consistent terminology for both parties to an SCA would facilitate discussions between the parties and analyses of the terms and conditions. It is noted that as used in IFRIC 12 this is only in reference to infrastructure assets (as described in examples). As such, it doesn’t appear to automatically allow for the inclusion of vehicles and equipment.

Alternative 3 – Facility (Term Raised at May 2009 IPSASB Meeting)

The term “facility” is not widely used in IPSASs (see Appendix 3), nor is it defined.

Oxford.com defines a facility as follows:

“...a building, service, or piece of equipment provided for a particular purpose.”

The proposed definition draws on examples in existing IPSASs (see Appendix 3), and it includes vehicles and equipment examples.

Facility: An asset or assets used in the delivery of services provided under a service concession arrangement. Facilities include infrastructure assets (e.g., road systems, bridges, dams, port facilities, water and power supply systems, water treatment plants, refineries and communications networks), other types of property, plant and equipment (e.g., office buildings, community centers, libraries, museums, a fleet of garbage collection trucks, prisons, hospitals and medical equipment) and intangible assets (e.g., patents or trademarks).

The definition is broad enough to allow for all the other types of asset with the exception of infrastructure assets —i.e., buildings, vehicles and equipment. It would be appropriate if the IPSASB agrees that vehicles and equipment may be the subject of SCAs. However, facility alone is too narrow to accommodate infrastructure assets. Greg Driscoll has noted that in the CP, the term “public facility” was added to infrastructure to cover buildings, like prisons or hospitals which were not in existing descriptions of infrastructure. This is consistent with the wording of IPSAS 13.25, which distinguishes infrastructure from other long-lived assets (see Appendix 3). This term is also not easily applicable to intangible assets.

Staff Recommendation

Staff recommends the term “property” be used in the SCA standard. It is used to describe various types of other assets addressed in IPSASs and is broadly inclusive of both physical and intangible assets.

Based on the variation of existing terminology and examples related to the term “infrastructure” in IPSASs (see Appendix 3), staff believes the changes noted in Alternative 1 (i.e., define infrastructure in the Glossary, using consistent examples) should be made for consistency within the IPSAS Handbook, irrespective of the term to be used in this standard.

Issue 3(a) – Term used for the Asset in an SCA

1. Based on your decision in Issue 1 which term would you favour?
2. Do you agree with the proposed wording of the definition? Consider whether it is necessary to include examples of property, plant and equipment and intangible assets in the definitions as proposed, given that these are specifically addressed in IPSAS 17 and ED 40?

(b) Grantor or Entity

The March 2008 CP used the term “grantor” to describe the public sector entity in an SCA. In the draft ED the IPSASB discussed in May 2009, both the terms “grantor” and “entity” were used.

It was indicated at the May meeting that one term should be used consistently throughout the document, with no preference expressed.

Other pronouncements use a variety of other terms:

1. IPSASs (and IFRSs) – generally use the term “entity” to describe the entity that is required to apply the Standard.
2. The South African ASB Guideline on *Accounting for Public-Private Partnerships* uses “grantor” initially to describe the entity, and uses “entity” in the body of the guideline.
3. The June 30, 2009 GASB ED on *Accounting and Financial Reporting for Service Concession Arrangements*- uses the term “transferor.”
4. IFRIC 12- uses the term “operator” to describe the private sector entity in an SCA and “grantor” to describe the public sector entity.

At the May meeting, the IPSASB agreed that the term “transferor” would not be appropriate given that the term tends to have a “non-exchange transaction” connotation in the IPSASs. Therefore consideration is limited to the use of either “grantor” or “entity”.

In the absence of a public sector standard dealing with SCAs, entities have applied IFRIC 12 and are familiar with its terminology, including the use of the term “grantor.”

The IPSASs use the term “entity” with the one exception of IPSAS 13, which uses both the terms “lessor” and “lessee” as well as the term “entity.” The use of “grantor” and “operator” in this standard is analogous to IPSAS 13 in that regard, because both use commonly understood terminology in describing the two parties to the specific types of contractual arrangement that are the subject of the respective standards as well as the generic term “entity” used throughout the IPSASs.

Many of the IPSASs are converged with IFRSs, which use a similar approach. However, IFRIC 12 diverges from “entity” for the operator side of the arrangements being addressed in the proposed IPSAS.

Staff Recommendation

Staff recommends the term “grantor” be used as the primary term throughout on the basis that it is already being used in practice by public sector entities applying IFRIC 12 in the absence of an IPSAS. It would, for example, be used in the bold type principles. However, staff also notes that in some cases such as in guidance, a more general term (i.e., entity) may need to be used, such as in IPSAS 13.

Use of a term other than “entity” also has precedent in a similar situation (i.e., IPSAS 13, for leases). Using this term would make it clear throughout the standard which entity the principles apply to. It will also facilitate communications between the public sector party and private sector party to an SCA (i.e., the grantor and operator respectively).

Issue 3(b) – Grantor or Entity

Do you agree with the staff proposal to use the term “grantor” as the primary term throughout the SCA standard, with a possibility for some use of the term entity?

Appendix 1 – Application of the “Residual Interest” Criterion

The impact of the difference in wording among the CP, IFRIC 12 and the GASB ED is shown in the following table.

The table illustrates how the control over residual value criterion (criterion b) would be applied in the three cases discussed above, assuming in each case, that the control over use criterion (criterion b) is met.

	IFRIC 12/May 2008 Draft ED	IPSASB March 2008 CP	Must control and must be significant (GASB approach)
RI is controlled by <u>grantor</u> and is significant	X ³	X	X
RI is controlled by <u>grantor</u> and is whole-of-life (insignificant RI)	X	X	
RI is controlled by <u>operator</u> and is whole-of-life (insignificant RI)	X		
RI is controlled by <u>operator</u> and is significant			

It is clear from the above analysis, that the difference in wording will cause some discrepancies in certain whole-of-life arrangements. However, there are more discrepancies with IFRIC 12 if the GASB treatment is used. As a result, there would be a gap in the accounting treatment for the asset between the operator accounting for whole-of-life assets under IFRIC 12 and the grantor accounting under certain circumstances, such that neither the grantor nor the operator would recognize an asset.

³ X – The control criteria are satisfied when the control over use criterion is met.

Appendix 2 – Whole-of-life Examples (provided by D. Bean, IPSASB Member)

As discussed at the May 2009 IPSASB meeting, two examples have been provided to assist you in evaluating which position is preferred for the wording of control criterion b.

Service Concession Arrangement Involving an Existing Bridge

Facts and Assumptions: A State, through its State Department of Transportation (SDOT), the transferor, enters into a service concession arrangement with the County Bridge Authority (CBA), a governmental operator, involving the State Bridge, an asset currently recognized by the SDOT in the amount of \$50 million. The bridge has a remaining useful life of 25 years and no salvage value. SDOT receives an up-front payment of \$1 billion from the CBA, in return for which the CBA receives the right to operate the bridge and collect and retain toll revenues for a period of 25 years. At the end of the 25 year arrangement, the CBA has agreed to pay for the cost to demolish the bridge (the SDOT plans to build a new bridge beside the old bridge and transition to the new bridge at the end of the arrangement with the CDA).

Service Concession Arrangement Involving Existing Refuse Collection Equipment

Facts and Assumptions: A local government enters into a service concession arrangement with a private sector operator for the right to collect refuse for the local government's businesses and residents for the next 15 years. As part of this arrangement, the City has agreed to close its refuse collection facility (which will be demolished) and provide the operator with the use of its refuse collection vehicles. The vehicles have a remaining useful life of 10 years and are not required to be returned to the local government by the operator at the end of the agreement. At the end of the 15 year arrangement, the refuse collection contract will be rebid; however, it will not be a service concession arrangement. No capital assets will be involved in the arrangement because the local government's assets that are currently being used to provide the services will no longer exist.

Appendix 3 – Existing References to Infrastructure, Facilities, Property, SCAs

1. IPSASs References

IPSAS 5.13: “... office buildings, hospitals, **infrastructure assets** such as roads, bridges and power generation **facilities**⁴...”

IPSAS 8.24: “The road provides the citizens with improved access between the local government’s industrial estate and its port **facilities**.”

IPSAS 9.7: “Examples of services rendered by public sector entities for which revenue is typically received in exchange may include the provision of housing, management of **water facilities**, ...”

IPSAS 11.5: “...A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use — examples of such contracts include those for the construction of reticulated **water supply systems**, refineries and **other complex infrastructure assets**.

IPSAS 11.11: “A contractor is an entity that enters into a contract to build structures, construct **facilities**, ...”

IPSAS 13.9: “A lease agreement or commitment may include a provision to adjust the lease payments for changes in the construction or acquisition cost of the **leased property** or for changes in some other measure of cost or value, such as general price levels, or in the lessor’s costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term.”

IPSAS 13.25: “A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate and/or transfer assets. Public sector entities often enter into such agreements, particularly in relation to **long-lived physical assets and infrastructure assets**. For example, a public sector entity may construct a tollway. It may then lease the tollway to a private sector entity as part of an arrangement whereby the private sector entity agrees to:

- (a) Lease the tollway for an extended period of time (with or without an option to purchase the facility);
- (b) Operate the tollway; and
- (c) Fulfill extensive maintenance requirements, including regular upgrading of both the road surface and the traffic control technology.

⁴ The term “facility/ies” is also used in IPSAS 15 in the context of a credit facility that the entity can draw on.

Other agreements may involve a public sector entity leasing infrastructure from the private sector.

IPSAS 13.26: “Where an arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard are applied in accounting for the lease component of the arrangement.”

IPSAS 13.27: “Public sector entities may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether or not a lease, as defined by this Standard, has arisen. In these cases, professional judgment is exercised, and if a lease has arisen this standard is applied; and if a lease has not arisen entities account for those agreements by applying the provisions of other relevant International Public Sector Accounting Standards, or in the absence thereof, other relevant international and/or national accounting standards.”

IPSAS 13.47: “...In particular, in some jurisdictions public sector entities which have traditionally owned and operated **infrastructure assets** such as roads, dams, and water treatment plants are no longer automatically assuming complete ownership and operational responsibility for these assets. ... In addition, public sector entities may construct new **long-lived physical and infrastructure assets** in partnership with private sector entities with the intention that the private sector entity will assume responsibility for the assets by way of outright purchase or by way of finance lease once they are completed.”

IPSAS 15.19: “...For example, a national government may provide a private sector operator of an **infrastructure facility** protection against demand risk by guaranteeing a minimum level of revenue.”

IPSAS 15.80: “...Similarly, where a local government guarantees the obligations of a private sector provider of **public infrastructure**, the maximum loss that could arise under that obligation in the event of default of the provider should be disclosed.”

IPSAS 16.7: “Investment property is **property** (land or a building – or part of a building – or both) ...”

IPSAS 17.21:

“... Some assets are commonly described as **infrastructure assets**. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

- (a) They are part of a system or network;
- (b) They are specialized in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and should

be accounted for in accordance with this Standard. **Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.**”

2. Consultation Paper References

The CP uses a variety of terms as shown below. However, the term “property” is used as the generic term throughout most of the paper.

12 In an operations concession arrangement, the public sector entity conveys to the private sector entity the right to provide services directly or indirectly to the public through the use of an existing **infrastructure asset or public facility**. The private sector entity in turn assumes an obligation to provide such services, normally in accordance with the public sector entity’s performance requirements. This form of arrangement, which allocates certain economic risks and benefits of delivering services to a private sector entity, is commonly used with **existing infrastructure or public facilities** that do not require significant construction.

28 The central accounting and financial reporting issue for grantors related to SCAs is the reporting of the **infrastructure or public facility (property)** associated with these arrangements, along with any related liability reflecting the obligation to compensate the operator for the property. ... Both the relationship among the parties to the SCA and the **underlying property** must be analyzed to determine the financial reporting that most faithfully represents ownership of the **property** on a “substance over form” basis.

3. IFRIC 12 References

1 ... **infrastructure** for public services—such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunications networks...

2 An arrangement within the scope of this Interpretation typically involves a private sector entity (an operator) constructing **the infrastructure** used...

11 **Infrastructure** within the scope of this Interpretation...

4. SIC-29 References

1 An entity (the operator) may enter into an arrangement with another entity (the grantor) to provide services that give the public access to **major economic and social facilities**. ...

2 A service concession arrangement generally involves the grantor conveying for the period of the concession to the operator:

(a) the right to provide services that give the public access to **major economic and social facilities**, and

(b) in some cases, the right to use **specified** tangible assets, **intangible** assets, or financial assets, ...

5. GASB ED References

As used in this proposed Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) and (2) the operator collects fees from third parties. (from Summary section)

1. The terms of an SCA may include payments from the operator to the government for the right to build, operate, and collect user fees on infrastructure or other public assets and may provide for revenue sharing between the government and the operator during the term of the arrangement. (this is the generic phrase used throughout the ED)
 4. This Statement establishes guidance for accounting and financial reporting for SCAs. As used in this Statement, an SCA is an arrangement between a government (the 2 transferor) and an operator in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”²) and (b) the operator collects fees from third parties. SCAs include, but are not limited to:
 - a. Arrangements in which the operator will design and build a facility and will obtain the right to collect fees from third parties (for example, construction of a municipal complex for the right to lease a portion of the facility to third parties)
 - b. Arrangements in which the operator will provide an up-front payment or a series of payments in exchange for the right to access an existing facility (for example, a parking garage) and collect fees from third parties for its usage
 - c. Arrangements in which the operator will design and build a facility (for example, a new tollway), finance the construction costs, provide the associated services, collect the associated fees, and return the facility to the government at the end of the arrangement.
- ² Facilities may include infrastructure, such as roads, bridges, and tunnels, and also may include equipment, buildings, and other structures.