



February 9, 2012

Memorandum

To: Members of the Board

From: Monica R. Valentine, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Lease Project - **TAB I – Attachment** ¹

MEETING OBJECTIVE

The objective of this session is to update the Board on the status of the Lease project. Unless a member requests, the update will not be a discussion item on the agenda.

BRIEFING MATERIALS

The transmittal memorandum includes a discussion of the following project status topics.

- Status of FASB/IASB lease project
- Coordination efforts with GASB
- Questionnaire status (a copy of questionnaire is attached)
- Task force status
- Other research efforts

BACKGROUND

During the August 2011 meeting, the Board approved a project plan to review existing federal lease accounting standards. The goal of the project on lease accounting is to

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

address the needs of the federal community and to develop more comprehensive standards on federal leasing activities than the existing standards.

Current FASAB standards addressing leasing transactions include Statement of Federal Financial Accounting Standard (SFFAS) 5 *Accounting for Liabilities of the Federal Government* [pars. 43 – 46] and SFFAS 6 *Accounting for Property, Plant, and Equipment* [pars. 20 & 29]. These lease standards were originally developed from Financial Accounting Standards Board (FASB) lease standards effective at that time. Currently, the FASB and International Accounting Standards Board (IASB) have undertaken a joint project on lease accounting that focuses on the conveyance of rights to future economic benefits (such as the right of use). In addition, the Governmental Accounting Standards Board (GASB) has recently initiated a research project on lease accounting.

Staff's research efforts include gathering data on current leasing activities and practices throughout the federal government, evaluating the advantages and/or disadvantages of the forthcoming FASB/IASB new lease accounting standards, and ultimately developing federal guidance on the accounting for lease transactions.

PROJECT STATUS

As noted above staff's current project objectives have been to collecting data on federal leasing activities/transactions and to follow the progress of the FASB/IASB and GASB lease projects. The following sections describe in more detail the status of those staff objectives.

1: Status of FASB/IASB Lease Project

The FASB/IASB began its joint lease accounting project in mid-2006. The Boards subsequently issued a preliminary views discussion paper in March of 2009 and later issued an exposure draft in August of 2010. The Boards also published a questionnaire in September of 2010 to survey organizations on their use of, and accounting for, leases. The Boards have held numerous public roundtable meetings and educational workshops. Based on the results of the exposure draft comment letters, roundtable meetings, and Board deliberations, the FASB/IASB has decided to re-expose the revised lease accounting proposals. The re-exposure will give the community an opportunity to comment on the revisions to the draft since the August 2010 exposure draft was released. That new exposure draft is expected to be released sometime during the first half of 2012.

On January 24, 2012 the FASB/IASB held a Joint Working Group Meeting on Lease Accounting to discuss several lessee accounting issues as well as one lessor accounting issue related to the definition of investment property.

Staff will continue to follow the progress of the FASB/IASB lease project and envision that more in-depth analysis of the proposed FASB/IASB lease accounting concepts can be conducted during the re-exposure period.

2: Coordination Efforts with GASB

In April 2011 GASB added a research project on lease accounting to its agenda. The following is a summary of the GASB research project plan on lease accounting as noted on their Research Projects website.

The objective of this project would be to reexamine issues associated with lease accounting, considering improvements to existing guidance. If this project is added to the Board's current agenda, this research project will provide a basis for the Board to consider whether operating leases meet the definitions of assets or liabilities.

Part of the GASB's strategic plan is to evaluate the effectiveness and impact of existing standards that have been in effect for a sufficient length of time. NCGA Statement 5 was issued in 1982 and GASB Statement 13 in 1990. This project would provide an opportunity for a fresh look at the existing guidance for any improvements not contemplated by the FASB/IASB project given the unique nature of governmental entities and the complexities of their leasing transactions.

Accounting and Financial Reporting Issues: The major topic being researched is the forms of financial reporting display and disclosure that would meet essential financial statement user needs. The project is considering the following research issues:

1. What types of leases are entered into by state and local governments?
2. What specific user needs exist regarding governmental leases and what decision-useful or accountability information is needed to meet those needs?
3. Are current accounting and financial reporting standards appropriate to meet essential user needs?
4. Should there be a distinction between operating and capital leases?
5. If current standards are not considered to be adequate, what additional potential requirements should be considered?

Staff is currently in contact with GASB staff to identify areas where research efforts can be coordinated.

3: Questionnaire Status

The lease accounting project plan presented to the Board in August 2011 noted that staff would develop a questionnaire to be used to gather data from federal entities on their leasing activities and practices. On January 17, 2012 the questionnaire was distributed to 24 federal entities. In an effort to gather the necessary data on the leasing activities and practices of federal entities, the questionnaire requested the assistance of Deputy CFOs and Accounting Directors in completing the questionnaire. The questionnaire requests specific information on leasing activities and practices related to the federal entity, including bureaus, agencies, offices, etc. under the jurisdiction of the federal entity. Staff has requested that questionnaire responses be submitted by February 27, 2012. A copy of the questionnaire is included in Appendix A of this tab.

4: Task Force Status

In addition to the questionnaire, staff also proposed that a task force be organized to include federal individuals with relevant leasing experience or interest, as well as knowledgeable non-federal professionals with federal experience in the area of lease accounting. The following entities have been asked to participate in the task force, the Office of Management and Budget (OMB), Congressional Budget Office (CBO), General Services Administration (GSA), Department of Defense (DoD), Department of Agriculture (USDA), Department of Justice, Department of the Interior, Department of Veterans Affairs (VA), Department of State, National Aeronautics and Space Administration (NASA) and two independent accounting firms. The task force will be used to gather data on current leasing practices throughout the federal government and to evaluate the advantages and disadvantages of the forthcoming FASB/IASB new lease accounting standards, as well as assist in the development of federal accounting guidance. Once the full list of nominated representatives has been compiled the task force names will be submitted to the FASAB chair for final approval. Staff expects to hold an initial task force meeting in March once all of the questionnaire responses have been analyzed.

5: Other Research Efforts

Other staff research efforts include reviewing several federal annual financial reports to compile leasing information that is currently being reported by federal entities. Staff is reviewing the reports looking for certain information such as, types of leasing activities; whether the entity is the lessee or lessor or both; any sub-leasing activities; whether the other party to the transaction is another federal entity or a private entity; any other "lease-type" activities not specifically referred to as a capital or operating lease. Staff will share the results of all research efforts with the Board in future Board meeting documents.



Survey Responses Requested by February 27, 2012

January 17, 2012

Memorandum

To: Federal Deputy Chief Financial Officers
Federal Accounting Directors

Wendy M. Payne

From: Wendy M. Payne, Executive Director

Subject: Questionnaire on Federal Leasing Activities and Practices

The Federal Accounting Standards Advisory Board (FASAB) promulgates accounting concepts and standards for federal government entities. FASAB develops federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information. Federal entities apply FASAB standards when preparing financial statements for independent audit. Additional information about FASAB can be obtained on our website at <http://www.fasab.gov>.

The Board has decided to undertake a project on lease accounting to address the needs of the federal community. The goal is to develop more comprehensive standards on federal leasing activities than the existing standards. At its August 2011 meeting, the FASAB approved a plan to review existing lease accounting standards and to consider whether changes are needed to address the needs of the federal community. See additional information on the project at <http://www.fasab.gov/projects/active-projects/leases/>.

Current FASAB standards addressing leasing transactions include Statement of Federal Financial Accounting Standard (SFFAS) 5 *Accounting for Liabilities of the Federal Government* [pars. 43 – 46] and SFFAS 6 *Accounting for Property, Plant, and Equipment* [pars. 20 & 29]. These lease standards were originally developed from Financial Accounting Standards Board (FASB) lease standards effective at that time.

Currently, the FASB and International Accounting Standards Board (IASB) have undertaken a joint project on lease accounting that focuses on the conveyance of rights to future economic benefits (such as the right of use). The FASB/IASB lease standards may be released as final later in 2012. Issuance of those standards will not automatically change federal financial accounting standards.

The primary objectives of the FASAB Lease project are to:

- a. Develop an approach to lease accounting that would ensure that all assets and liabilities [consistent with Statement of Federal Financial Accounting Concepts (SFFAC) 5 definitions]

arising under lease contracts/agreements are recognized in the statement of financial position and related costs are recognized in the statement of net cost.

- b. Evaluate and revise as needed the current lease-related definitions and recognition guidance in SFFAS 5 and 6, including consideration of the advantages and disadvantages of applying the FASB/IASB lease standard in the federal environment.
- c. Ensure that the standards to be developed fully address the various lease transactions/activities currently being used in the federal community (e.g. enhanced use leases).
- d. Consider the differences between lease accounting and the budgetary treatment of lease-purchases and leases of capital assets as outlined in Office of Management and Budget (OMB) Circular A-11.

In an effort to gather the necessary data on the leasing activities and practices of federal entities, we are requesting your assistance in completing the attached questionnaire. The questionnaire requests specific information on leasing activities and practices related to your federal entity, including bureaus, agencies, offices, etc. under the jurisdiction of your federal entity.

Your input will assist us in more efficiently and effectively developing new lease standards for the federal government. We are requesting responses be emailed to valentinem@fasab.gov or faxed to 202-512-7366 by **February 27, 2012**. Please feel free to contact Monica Valentine at 202-512-7362 to discuss any questions you may have. Thank you for your time and assistance.

Attachment

Federal Leasing Activities and Practices Questionnaire

Directions: Please provide the answers to the survey based on the activities and practices of your organization. Please click one box for each yes/no question(s). For narrative responses, please click on the grey shading in the box to begin typing your response.

Disclaimer: In the course of developing or updating federal accounting standards, FASAB staff periodically utilize task forces, questionnaires, surveys, and other means of communication to solicit feedback from the federal community. The information contained in this survey is intended to assist staff in preparing materials for the Board's deliberations; it is not intended to reflect authoritative or formal views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

For purposes of this questionnaire, we are defining a **lease** as, "An agreement conveying the right to use property, plant, and equipment usually for a stated period of time." [FAS Codification 840-10-20 Glossary (FAS 13, paragraph 1)]

Questions regarding your agency/entity's leasing activities and practices.

Please note: All leasing activities and practices referred to in this questionnaire include both intra-governmental activities/practices as well as those activities/practices with private entities.

1. Does your federal agency/entity engage in any leasing activities?

(Please click on one box)

Yes No

If Yes, please provide a brief summary of the leasing activities.

(Please click on the grey shading in the box below to begin typing your response)

2. Does your federal agency/entity consider your leasing activities to be material (i.e., lease dollar value or number of leasing contracts)?

(Please click on one box)

Yes No

If Yes, please provide a basis for your materiality determination.

(Please click on the grey shading in the box below to begin typing your response)

3. Does your federal agency/entity more often serve as the lessor (asset owner) or the lessee (leases/uses asset)? Please provide a percentage breakdown of lessor vs. lessee activities.

(Please click on one box)

Lessor Lessee

Please provide a percentage breakdown of lessor vs. lessee.

(Please click on the grey shading in the box below to begin typing your response)

4. What types/categories of leased assets (i.e., buildings, facilities, vehicles, land, equipment, software, etc.) are associated with your federal agency/entity's leasing activities?

Please provide a list of your federal agency/entity's leased asset types or categories.

(Please click on the grey shading in the box below to begin typing your response)

5. Is your federal agency/entity involved in any enhanced use leases (EUL)?

(Please click on one box)

Yes No

If Yes, please provide a brief overview of those EUL activities.

(Please click on the grey shading in the box below to begin typing your response)

6. Does your federal agency/entity currently use federal accounting guidance (i.e., SFFAS 5 & 6) to account for your leasing activities?

(Please click on one box)

Yes No

If Not, what accounting guidance does your federal agency/entity follow.

(Please click on the grey shading in the box below to begin typing your response)

7. Does your federal agency/entity find the current federal lease accounting guidance adequate for your purposes or is it lacking certain areas?

(Please click on one box)

Yes No

Please explain your answer.

(Please click on the grey shading in the box below to begin typing your response)

8. Does your federal agency/entity have other concerns with the current federal lease accounting guidance?

(Please click on one box)

Yes No

If Yes, please explain your concerns.

(Please click on the grey shading in the box below to begin typing your response)

9. Does your federal agency/entity have any specific concerns with the current federal lease accounting standards (i.e., SFFAS 5 & 6) as it relates to the budget scoring of leases as outlined in Appendix B of OMB Circular A-11?

(Please click on one box)

Yes No

If Yes, please explain your concerns.

(Please click on the grey shading in the box below to begin typing your response)

10. Would your federal agency/entity be interested in participating in a federal lease accounting task force sponsored by the FASAB?

(Please click on one box)

Yes No

Please explain.

(Please click on the grey shading in the box below to begin typing your response)

Requested Information Regarding Person Completing Survey:

(Please click on each grey box below to input requested information)

**First and Last
Name:**

**Organization
Name:**

Position Title:

Phone Number:

Email Address: