Federal Accounting Standards Advisory Board

April 16, 2015

Memorandum

To: Members of the Board

M.R. Valentine

From: Monica R. Valentine, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Leases Project – **Tab C**[1]

MEETING OBJECTIVES

The objective for the April meeting is for staff to gain Board member feedback on draft sections of the intragovernmental lease accounting proposal.

Staff will also provide the Board with an update on the GASB Preliminary Views (PV) on Leases.

BRIEFING MATERIAL

- **Staff Memo**
- **Attachment I:** Draft Lease Exposure Draft – Definitions and Intragovernmental Leases.
- **Attachment II:** Brief summary of GASB PV comment letters and public hearings.
- **Appendix A:** History of Board Lease Discussions

BACKGROUND

At the February meeting staff presented to the Board a discussion paper that provided an analysis of the final six chapters of the Governmental Accounting Standards Board (GASB) Preliminary Views (PV) on Leases. The GASB PV on Leases is being used as a foundation for the development of the FASAB lease standards on non-intragovernmental lease agreements – the GASB PV was released for comment in

[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.

November 2015. The topics discussed included lessee accounting, lessor accounting, short-term exception, lease terminations and modifications, subleases and leaseback transactions, and leases with related parties, and intra-entity leases.

NEXT STEPS

Staff will continue to work with the task force to further develop the lease standards, including the intragovernmental lease standards. Staff will also continue to follow the progress of the other standard setters' lease accounting projects.

MEMBER FEEDBACK

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-7362 or by e-mail at valentinem@fasab.gov with a cc to paynew@fasab.gov

QUESTIONS FOR BOARD

1. **Does the Board agree with the preliminary proposal for the intragovernmental lease accounting guidance?**

2. **Does the Board agree with staff's recommendation to release the lease ED in a timeframe close to the release of the GASB ED?**

Federal Accounting Standards Advisory Board

ACCOUNTING FOR LEASES:

AN AMENDMENT OF SFFAS 5, ACCOUNTING FOR LIABILITIES OF THE FEDERAL GOVERNMENT AND SFFAS 6, ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

PROPOSED STANDARDS

SCOPE

4. 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*.

5. This Statement amends the lease accounting standards in *SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*. This Statement also establishes standards applicable to intragovernmental leases.

AMENDMENTS

6. ……

7.

8.

9. ………………

DEFINITIONS

10. **<u>Lease</u> –** A lease is a contract or agreement that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.[1]

11. **<u>Intragovernmental</u> –** Intragovernmental occurs within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47, *Reporting Entity*.

12. **<u>Intragovernmental Lease</u> –** An intragovernmental lease is a lease occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47, *Reporting Entity*.

13. **<u>Lease Inception</u> –** The lease inception is the initial date the lessor makes the asset available to the lessee.

[1] Consideration is something of value, such as cash, goods, or services, given by one party to another in exchange for an act or promise.

14. **Lease Term –** The lease term would be defined as the period during which a lessee has a noncancelable right to use an underlying asset, plus the following, if applicable:

    a. Periods covered by a lessee's option to extend the lease if it is probable, based on all relevant factors, that the lessee will exercise that option

    b. Periods covered by a lessee's option to terminate the lease if it is probable, based on all relevant factors, that the lessee will not exercise that option.

15. **Lease Option Periods –** Lease option periods are additional lease periods beyond the initial lease term – the options may be included in the initial lease or may be agreed to later in the lease term.

16. **Initial Direct Costs –** Initial direct costs are costs that are directly attributable to negotiating and arranging a lease and would not have been incurred without entering into the lease.

17. **Short-Term Lease –** A short-term lease is a lease that, at the commencement date, has a maximum possible term under the contract/arrangement, including any option periods to extend, of 24 months or less.

PLACEHOLDER FOR RECOGNITION, MEASUREMENT, & DISCLOSURES FOR THE *[NON-INTRAGOVERNMENTAL]* LEASE STANDARD

RECOGNITION AND MEASUREMENT

18. ……………….

    a. ….

    b. ….

DISCLOSURE REQUIREMENTS

Component Reporting Entity Disclosures

Financial Report of the US Government Disclosures

THIS SECTION ADDRESSES THE PROPOSAL FOR INTRAGOVERNMENTAL LEASES

INTRAGOVERNMENTAL LEASES

19. This section describes an exception for intragovernmental leases to the overall recognition, measurement, and disclosure requirements for lessees and lessors. An intragovernmental lease is a contract or agreement that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47 (Reporting Entity). Any lease that meets the definition of an intragovernmental lease would be required to follow the accounting guidance described in paragraphs XX – XX below.

INTRAGOVERNMENTAL LEASES – LESSEE ACCOUNTING

20. The following sections articulate the general recognition guidance for lessees of intragovernmental leases and detailed recognition guidance regarding several specific intragovernmental lease topics, as well as disclosure guidance.

RECOGNITION AND MEASUREMENT

GENERAL GUIDANCE FOR RECOGNITION OF INTRAGOVERNMENTAL LEASES

21. …

22. A lessee should recognize lease payments, including lease-related operating cost (for example, maintenance, utilities, taxes, etc.) paid to the lessor, as expenses based primarily on the payment provisions of the lease. A lessee would not recognize a lease asset and a corresponding liability for an intragovernmental lease. Accordingly, a lessee would not recognize amortization expense related to a lease asset or interest expense on a lease liability.

23. Recognition should be based on the payment provisions of the lease. Prepaid rent or a payable for rent due should be recognized as an asset or liability, respectively, and an expense should be recognized in the appropriate period based on the specifics of the lease provisions.

GUIDANCE FOR RECOGNITION OF SPECIFIC INTRAGOVERNMENTAL LEASE TOPICS

24. **Scheduled Rent Increases** – Scheduled rent increases are increases that are fixed in the lease. They take place with the passage of time and are not contingent on future events. The rent increases may, for example, be based on such factors as anticipated increases in costs or anticipated appreciation in property values, but the amount of the increase is specified in the lease. In contrast, in leases with contingent rentals, the changes in lease

payments are based on changes in specific economic factors, for example, future activity levels or future inflation (for example, tied to a specific economic indicator).

25. If the lease provides for scheduled rent increases a lessee should not allocate the increased rent expense over the lease term but should recognize the expense in the period of the increase as provided in the lease.

26. **Lease Incentives –** Lease incentives include lessor payments made to or on behalf of the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee; for example, moving costs, termination fees to lessee's prior lessor, or lessor's assumption of the lessee's lease obligation under a different lease with another lessor.

27. Lease incentives should be recognized as reductions of lease rental expense by the lessee on a straight-line basis over the lease term. The lessee should recognize the expenses or losses to which the incentives relate in the period the costs are incurred. For example, an incentive equal to the moving expense incurred to occupy the leased space reduces rent expense over the lease term and the moving expense is recognized in the period incurred (that is, when the move occurs).

28. **Lease Concessions –** Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. Lease concessions include rent holidays/free rent periods, reduced rents, or commission credits.

29. Lease concessions should be recognized as reductions of lease rental expense by the lessee on a straight-line basis over the lease term.

30. **Leasehold Improvements –** Leasehold improvements are additions, alterations, remodeling, renovations or other changes to a leased property that are made by the lessee rather than by the lessor. Leasehold improvements that are placed in service at or after the beginning of the lease term should be amortized over the useful life of the leasehold improvement.

DISCLOSURES

31. Lessees should disclose a broad summary of significant clauses of the lessee's intragovernmental leasing arrangements.

INTRAGOVERNMENTAL LEASE ARRANGEMENTS – LESSOR ACCOUNTING

32. The following sections articulate general recognition guidance for lessors of intragovernmental leases. They also provide more detailed recognition guidance regarding several specific intragovernmental lease topics as well as disclosure guidance.

RECOGNITION

GENERAL GUIDANCE FOR RECOGNITION OF INTRAGOVERNMENTAL LEASES

33. A lessor should recognize lease receipts, including lease-related operating cost (for example, maintenance, utilities, or taxes) received from the lessee as income based primarily on the receipt provisions of the lease.

GUIDANCE FOR RECOGNITION OF SPECIFIC INTRAGOVERNMENTAL LEASES

34. **Lease Incentives –** Lease incentives include lessor payments made to or on behalf of the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee (for example, moving costs), termination fees to lessee’s prior lessor, or lessor’s assumption of the lessee’s lease obligation under a different lease with another lessor.

35. **Lease Concessions –** Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. Lease concessions include rent holidays/free rent periods, reduced rents, or commission credits.

36. Lease concessions should be recognized by the lessor as reductions in rental income on a straight-line basis over the lease term.

37. **Tenant Improvements –** Tenant improvements are additions, alterations, remodeling, renovations or other changes to a leased property that are made by the lessor. These capital improvements are components of the leased property and should be capitalized and depreciated by the lessor over their useful life consistent with the lessor’s accounting for property, plant, and equipment.

38. **Initial Direct Costs –** Lessor initial direct costs should be expensed when incurred by the lessor.

DISCLOSURES

39. Lessors should disclose the following regarding intragovernmental leases:

    a. Future lease rental income as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years for lease arrangements over the period of expected or planned occupancy, which includes the lease term.

    b. A broad summary of significant clauses of the lease.

40.

EFFECTIVE DATE

41. The requirements of this Statement are effective for reporting periods beginning after September 30, 20XX.

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. xxx.

- a. xxx
- b. xxx
    - i. xxx

A2. The terms “intragovernmental” and “inter-entity” can be used interchangeably. Earlier FASAB standards predominately used “inter-entity.” However, government-wide usage of “intragovernmental” has become more common.

APPENDIX B: ILLUSTRATIONS

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

APPENDIX C: ABBREVIATIONS

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

APPENDIX D: GLOSSARY

GASB PV COMMENT LETTER SUMMARY

In November 2014 GASB issued its Preliminary Views (PV) on *Leases*, with a comment period ending March 6, 2015. As of early April 2015 GASB received 37 comment letters on the PV and held three public hearings. The following is a brief summary prepared by FASAB staff of several potentially relevant comments/questions from those comment letters for the Board to review. GASB expects to issue a *Lease* exposure draft (ED) in February 2016 and a final standard in early 2017.

Early in the project the Board agreed to use the GASB lease accounting proposal as the foundation for the FASAB lease account proposal. Since the GASB ED is not expected to be released until early 2016, staff would recommend that the FASAB ED also be released close to that same timeframe.

Board Question: Does the Board agree with staff's recommendation to release the lease ED in a timeframe close to the release of the GASB ED?

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GASB PV COMMENT LETTER SUMMARY – [Letters 1-37]

Prepared by FASAB Staff – Comments relevant to FASAB Lease project

Chapter 1 – Objective & Background

<u>CHAPTER SUMMARY</u>: The objective of the [GASB] Leases project is to reexamine issues associated with accounting and financial reporting for leases and consider improvements to existing guidance. The preliminary views described in this document are based on the [GASB] Board's belief that all leases are financings of the right to use an underlying asset and, therefore, a single approach would be applied to accounting for leases. One of the principles guiding the [GASB] Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs.

<u>COMMENTS</u>:

- Avoid differences with FASB lease guidance

Chapter 2 – Applicability & Scope

<u>CHAPTER SUMMARY</u>: A lease would be defined as a contract that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange or exchange-like transaction. Any contract that meets this definition would be accounted for under the leases guidance, unless specifically excluded. Leases that transfer ownership or contain a bargain purchase option would be accounted for as financed purchases and would not be accounted for under the leases guidance.

Contracts that contain both lease and service components generally would be separated so that each component is accounted for on its own. Contracts that contain leases of multiple assets may be separated in certain circumstances. Contracts entered into at or near the same time with the same counterparty would not be presumed to be part of the same lease unless there is evidence to the contrary.

COMMENTS:

- The mere presence of a bargain purchase option (BPO) should not exclude a lease from the lease standards.
- Bargain purchase option needs to be defined
- A bargain for one entity may not be a bargain for another entity
- Disagree with exclusion of leases that transfer ownership – guidance is still needed prior to transfer
- Exclude licensing contracts for placement of scientific equipment
- Concerns over practicability of separating components and accounting for multiple component leases
- Contract combinations should be more neutral
- Is "control" a factor in the lease definition?
- What about leasing of intangible assets?
- Software license accounting is unclear as it relates to leases
- PV needs to address land held temporarily for the production of income (i.e., investment purposes)
- Nonexchange leases will not be adequately covered in GASB 33

Chapter 3 – Lease Term

CHAPTER SUMMARY: The lease term would be defined as the period during which a lessee has a noncancellable right to use an underlying asset, plus the following, if applicable:

1. Periods covered by a lessee's option to extend the lease if it is probable, based on all relevant factors, that the lessee will exercise that option
2. Periods covered by a lessee's option to terminate the lease if it is probable, based on all relevant factors, that the lessee will not exercise that option.

Fiscal funding or cancellation clauses would continue to be disregarded for financial reporting purposes if the possibility of cancellation is remote. A government would reassess the lease term only if the lessee does one or both of the following:

1. Elects to exercise an option to extend the lease even though the government had previously determined that it was not probable that the lessee would do so

2. Does not elect to exercise an option to terminate the lease even though the government had previously determined that it was probable that the lessee would do so.

<u>COMMENTS</u>:

- Lessor only cancellation periods are troublesome – clarify cancellation periods – who can cancel
- Concerns with lessor only termination option
- Lessee has more insight into the probability of option renewals
- Concerns with the subjectivity of "probable options"
- How should multiple option periods be handled
- There are differences between FASB's "reasonably assured" and GASB's "probable"
- Clearly define "significant event"
- Tracking of individual lease terms will be burdensome
- Triggers for the reassessment of the lease term are limited – specific trigger events should be included

Chapter 4 – Lessee Accounting

<u>CHAPTER SUMMARY</u>: Lessees would recognize a lease liability and an intangible lease asset at the beginning of a lease, unless it is a short-term lease as defined below. The liability would be measured at the present value of certain lease payments to be made over the lease term. The lease asset would be measured at the value of the lease liability plus any prepayments and certain initial direct costs. A lessee would recognize interest expense on the lease liability and amortization expense on the lease asset. Disclosures would include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

<u>COMMENTS</u>:

- Materiality statement should be earlier than chapter 4

- Clarify if a lease liability is reported if the lease asset is below threshold
- Concerns with disclosing the government's possible intentions (renewal, purchase, etc.) in the financial statements
- "Other payments" is unclear in liability recognition
- How often would amortization tables have to be re-calculated
- Consider eliminating calculation to separate principal and interest amounts
- Consider the "right to use asset" as an intangible asset under PP&E
- Clarify if the lessee disclosures are in a lease footnote or in a commitment footnote
- Lessee disclosures are excessive
- Disclosure of general description is unclear
- The guidance needs to address multiple-item leases

Chapter 5 – Lessor Accounting

CHAPTER SUMMARY: Lessors would recognize a lease receivable and a deferred inflow of resources at the beginning of a lease, unless it is a short-term lease as defined below. The receivable would be measured at the present value of certain lease payments to be received over the lease term. The deferred inflow of resources would be measured at the value of the lease receivable plus the amount of any payments received at or prior to the beginning of the lease that relate to future periods. A lessor would recognize interest revenue on the lease receivable and also would recognize revenue over the term of the lease from the deferred inflow of resources. A lessor would not derecognize the underlying asset in the lease. Disclosures would include a description of leasing arrangements, the total amount of revenue recognized from leases, and a schedule of future lease payments to be received.

COMMENTS:

- Concern with lessor's double assets on the balance sheet
- Disclosure of general description is unclear

Chapter 6 – Short-term Lease Exception

CHAPTER SUMMARY: A short-term lease would be defined as a lease that, at the beginning of the lease, has a maximum possible term under the contract, including any options to extend, of 12 months or less. A lessee in a short-term lease would not follow the regular accounting for leases but, instead, would recognize lease payments as expenses or expenditures based primarily on the payment terms of the contract. A lessor in a short-term lease would not follow the regular accounting for leases but, instead, would recognize lease payments as revenue based primarily on the terms of the contract.

COMMENTS:

- Tracking of short-term leases is burdensome
- Does “rate” mean interest rate?
- Disagree with exception that lessee would not be required to allocate expense or expenditure to the rent holiday period.
- Concerns with short-term disclosures

Chapter 7 – Lease Terminations & Modifications

CHAPTER SUMMARY: An amendment to a lease contract would be considered a modification unless the lessee’s right to use the underlying asset decreases, in which case it would be a partial termination. A lease termination would be accounted for by adjusting the balances of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflow of resources by a lessor, with any difference being recognized as a gain or loss. A lease modification would be accounted for by adjusting the balances of the related lease liability and lease asset by a lessee, or the related lease receivable and deferred inflow of resources by a lessor. However, if the modification is due to the refunding of related debt, other guidance would apply.

COMMENTS:

- The lease terminations and modification requirements are quite complex
- Lease modifications are an economic event and not an accounting estimate

Chapter 8 – Subleases & Leaseback Transactions

CHAPTER SUMMARY: Subleases would be treated as transactions separate from the original lease. A government that has sublet an asset would recognize separately the liability and lease asset as lessee in the original lease and the receivable and deferred inflow of resources as lessor in the sublease. A sale-leaseback transaction would be accounted for under sale-leaseback accounting if there is a qualifying sale. In that case, the sale would be accounted for as any other sale, except any gain or loss would be reported as a deferred inflow of resources or a deferred outflow of resources and recognized over the term of the leaseback. The leaseback would be accounted for in the same manner as any other lease. A lease-leaseback transaction would be recognized as a net lease liability or lease receivable, with disclosure of the gross lease liability and lease receivable.

COMMENTS:

- Are gains or losses recognized on leasebacks?

Chapter 9 – Leases with Related Parties & Intra-entity Leases

CHAPTER SUMMARY: A lease between related parties would continue to be recognized based on the substance instead of the form of the transaction. Leases within financial reporting entities would continue to be treated like any other transaction between component units. Leases with blended component units would be eliminated in the financial statements of the reporting entity, while leases with discretely presented component units would be presented separately from other leases.

COMMENTS: None.

Other General Comments:

- Strongly discourage retroactive reporting
- Definitions should be coordinated among standard setters
- The PV approach will be onerous for immaterial leasing activities
- Concerns with leases involving facilities owned by governmental entities – certain current FASB exclusions
- Concerns with airport terminals
- Consider the use of flowcharts for decision-making factors
- Consider using example JE's
- PV approach will require separate accounting by lease
- Encourages a more simplified methodology
- The use of "consider" is not strong enough of a word

History of Board Lease Discussions

- At the February meeting staff presented to the Board a discussion paper that provided an analysis of the final six chapters of the Governmental Accounting Standards Board (GASB) Preliminary Views (PV) on Leases. The GASB PV on Leases is being used as a foundation for the development of the FASAB lease standards on non-intragovernmental lease agreements – the GASB PV was released for comment in November 2015. The topics discussed included lessee accounting, lessor accounting, short-term exception, lease terminations and modifications, subleases and leaseback transactions, and leases with related parties, and intra-entity leases.
- At the December 2014 meeting staff presented to the Board proposed guidance for intragovernmental leases. The proposed guidance included definitions of relevant terms, as well as specific provisions that address features of leases and is based on the current Financial Accounting Standards Board operating lease guidance. The Board had previously directed staff to simplify the intragovernmental lease accounting guidance. Staff presented revisions to the previously proposed recognition and disclosure lessee and lessor guidance for intragovernmental lease arrangements. The Board stressed consistency and the need for symmetry between the lessee and lessor accounting for intragovernmental leases

  Staff also presented an analysis of the first three chapters of the GASB Preliminary Views (PV) on Leases so that the Board could discuss the GASB concepts as it relates to the development of federal lease standards. The GASB PV on Leases will be used as a foundation for the development of the FASAB lease standards on non-intragovernmental lease agreements– the GASB PV was released for comment in November. The topics discussed were project objective, project background, applicability, scope, and lease term.
- At the October 2014 meeting staff presented to the Board proposed draft guidance for intragovernmental leases. The proposed guidance included definitions of relevant terms, as well as specific provisions that addressed features of leases and that is based on the current FASB operating lease guidance.

  Staff proposed seven lease-related definitions to the Board for discussion. The first three definitions – lease, intragovernmental and intragovernmental lease agreement – were discussed and tentatively agreed to by the Board at previous meetings. The remaining four proposed lease-related definitions – intragovernmental lease inception, intragovernmental minimum lease payments, intragovernmental noncancelable lease term, and intragovernmental sublease – were adapted from FASB's existing operating lease guidance. The Board asked staff to simplify the proposed definitions and discuss with the task force.

  Staff also presented proposed recognition and disclosure lessee guidance for intragovernmental lease arrangements. The Board agreed that the lessee general guidance would be to recognize lease payments as they are received and specific provisions would address those instances when the “due and payable” is not applicable.

The Board also agreed that certain scheduled rent increases, rent holidays, and lease incentives should be recognized on a straight-line basis – possibly using the proposed language used for the amortization of leasehold improvements.

- At the August 2014 meeting the Board discussed and agreed to a definition for the term “intragovernmental” to refer to occurring within a consolidation entity or within or between two or more consolidation entities.

  The Board discussed and agreed to proposed definitions of leases and of intragovernmental lease arrangements.

  The Board discussed staff's proposal for recognizing operating leases--straight-line for lease costs and in the current period for executory costs. The Board members agreed with the straight-line concept for lease payments, but would like additional information before deciding whether executory costs should be required to be separated from the rental payment.

  The next decision related to the proposed disclosure of future lease payments. Some questioned whether this disclosure was necessary for intragovernmental lease arrangements. The Board agreed to exclude the disclosure, but to ask a question in the exposure document whether the disclosure is necessary.

  The Board agreed that the lessor revenue recognition would match the lessee's expense recognition—on the straight-line basis.

  The Board agreed that upfront lease costs for lessors would be expensed

  Regarding potential disclosures of future lease payments of lessors, there were no objections to the proposed disclosures.

- At the June 2014 Board meeting a majority of the Board agreed with a simplified approach for recognizing amounts arising from intragovernmental lease arrangements. The Board agreed that intragovernmental lease arrangements should be accounted for differently than leases between federal entities and non-federal entities.

  The Board suggested referring to the project as “leases, including similar intragovernmental lease arrangements” (similar intragovernmental lease arrangements are in substance leases) to differentiate the intragovernmental arrangements from the non-federal arrangements. This would allow the two types of transactions to be disclosed separately.

  The Board also agreed not to pursue issuing a preliminary views (PV) document on leases and to tentatively plan to issue its exposure draft (ED) on leases and other similar arrangements close to when the Governmental Accounting Standards Board (GASB) will issue its ED. Because GASB plans to issue a PV prior to its ED, staff will have an opportunity to seek informally feedback from the federal community on the GASB PV.

- At the April 2014 meeting the U.S. General Services Administration (GSA) provided an educational session with the goal of the Board gaining a better understanding of several GSA lease-related topics.

- At the March 2014 the Board met jointly with the GASB to discuss similar issues related to each of their ongoing lease accounting projects. Both Boards agreed that they should begin with the goal of developing symmetry between the lessee and lessor models. The FASAB was also very focused on the intragovernmental leasing issues involving federal entities and those federal-specific lease issues.

- In January 2014 staff asked the Board to provide their input in a survey format on the tentative decisions made by the GASB on their lease project to date. Based on the results of the survey, staff identified several topics for further discussion during the joint meeting with GASB.

- At the December 2013 meeting the Board briefly discussed the GASB tentative decisions on their leases project to date with the GASB Practice Fellow leading their leases project.
  - ✓ The Board tentatively agreed that based on Statement of Federal Financial Accounting Concepts (SFFAC) 5's definition of an asset and liability a federal entity's **right to use** a leased asset and the **obligation to make lease payments** are assets and liabilities of the entity.
  - ✓ All of the members agreed to explore the single-model approach as opposed to the dual-model approach.

Other Lease Discussions

- ❒ FASAB staff members met with OMB staff on April 30, 2014 to discuss budget scoring for capital leases. OMB staff explained that Appendix B of OMB Circular A-11, which provides instructions on the budgetary treatment of lease-purchases and leases of capital assets, is consistent with the scorekeeping rule developed by the executive (OMB) and legislative branches (CBO) originally in connection with the Budget Enforcement Act of 1990 (BEA). Statement of Financial Accounting Standards 13, issued by FASB, was the "support" for the scorekeeping rules developed. Because the lease budget scoring rules were developed in connection with the BEA and cannot be changed unless all of the scorekeepers (OMB, CBO, and the Budget Committees) agree, it is not likely that the rules will change based on potential changes in the financial accounting for leases. OMB staff provided other helpful insights which we will explore further later in the project.