History of Board Lease Discussions

- At the December 2015 meeting staff updated the Board on the lease project, including the status of the GASB lease project. The Board had previously directed staff to use the GASB lease proposal as a platform for developing the FASAB standards on non-intragovernmental leases.

  Staff noted that the GASB is in the final stages of finalizing their exposure draft (ED) and expects to release the ED for comment in early February 2016. FASB plans to release their final lease standard in early 2016 with an effective date of 2019.

  Staff's goal is to have the FASAB lease ED available for comment by mid-2016. Staff also held a lease task force meeting in early-February 2016.

  There was also a brief discussion on the accounting for lease holdovers, in light of a recent GAO report.

  Lastly, there are plans to convene another FASAB/GASB joint meeting in 2016.

  Staff will continue to work with the task force to further develop the lease standards and will continue to follow the progress of the GASB lease discussions.

- At the October 2015 meeting staff updated the Board on GASB's deliberations of their lease project. The Board had previously directed staff to use the GASB Lease proposal as a platform for developing the FASAB standards on non-intragovernmental leases.

  Staff provided the Board with excerpts from the tentative GASB Board meeting minutes from their September 1, 2015 lease discussion. The following GASB lease topics were presented to the Board.

  - Airport Leases and Related Issues
  - Lessee Disclosures
  - Lessor Disclosures
  - Short-Term Lease Exception
  - Lease Terminations and Modifications
  - Subleases and Leaseback Transactions

  Staff will continue to work with the task force to further develop the lease standards and will continue to follow the progress of the GASB lease discussions.

- At the August 2015 meeting staff updated the Board on GASB's deliberations of their lease project. The Board had previously directed staff to use the GASB Lease proposal as a platform for developing the FASAB standards on non-intragovernmental leases.

  Staff provided the Board with eleven discussion items that staff compiled from the last three GASB lease discussions (April, June, and July 2015). The eleven issues represented those lease topics that GASB either changed its position from the November 2014 Lease Preliminary Views document or topics that FASAB will need to further discuss as the exposure draft is developed. The following discussion items were presented to the Board.

  - Defining "nonfinancial asset"
  - Intangible (lease) assets
  - The role of "control" in determining whether a transaction qualifies as an asset
  - Service concession agreements
  - Bargain purchase options
  - Month-to-month holdover periods
  - Probability threshold
  - Lessee renewal/termination options
  - Fiscal funding clauses
  - Lease liability remeasurement
  - Allocation of consideration to multiple components

  A Board member suggested just giving examples or asset classes of nonfinancial assets, if a clearer definition cannot be developed. The Board asked staff if federal leases would go beyond the scope of capital assets (real and personal property). The Board asked staff to comeback with options to defining nonfinancial assets.

  Staff noted that the FASAB "probable" definition equates to "more likely than not" and "reasonably certain" has an even higher threshold than GASB's "probable (likely to occur)." Since FASAB previously noted that it was comfortable with the differences between our "probable" and GASB's "probable," staff recommends not accepting GASB's change to "reasonably certain" and staying with the FASAB "probable" definition, because there seems to be no compelling reason to introduce a new term for the sake of a higher threshold. The Board did not disagree with staff's recommendation.

  The Executive Director reminded the Board that all of the issues will be brought back to the Board for more discussion before the exposure draft is finalized.

  Staff will continue to work with the task force to further develop the lease standards and will continue to follow the progress of the GASB lease discussions.

- At the April meeting staff presented to the Board an initial draft exposure draft (ED) for the intragovernmental portion of the leases standard. Staff noted that the lease standard will include guidance for all federal leases, including intragovernmental leases. The Board has tentatively agreed that intragovernmental leases should be

accounted for similar to current operating leases guidance. The draft ED included definitions of relevant terms, as well as specific provisions that address the recognition and measurement of intragovernmental leases for both the lessee and the lessor. Staff asked the Board if they agreed with the proposed language. The Board generally agreed with the staff proposal and asked staff to provide clarifying language in several sections of the proposal.

Staff also presented to the Board a summary of possible FASAB-relevant comments from the Governmental Accounting Standards Board's (GASB) Preliminary Views (PV) on Leases. The Board had previously directed staff to use the GASB Lease PV as a platform for developing the FASAB standards on non-intragovernmental leases. GASB received 37 comment letters on their lease PV and held three public hearings and expects to issue its exposure draft in February 2016 and a final standard in early 2017. Since the Board previously agreed to use the GASB lease accounting proposal as the foundation for the FASAB lease account proposal and any wording differences could denote a difference in meaning, staff recommended that the FASAB ED also be released close to that same timeframe as the GASB ED. The Board agreed to stay in sync with the GASB timeline for the release of the lease ED and final standard.

- 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.