Federal Accounting Standards Advisory Board

February 11, 2016

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 H**[1]

MEETING OBJECTIVES

The objective of this session is to review the proposed non-intragovernmental lease standards with the Board and to gain feedback on the proposal from the Board.

BRIEFING MATERIAL

- **Staff Memo**
- **Attachment 1:** Proposed Non-Intragovernmental Lease Standards
- **Appendix A:** GASB Lease Exposure Draft and News Release
- **Appendix B:** History of Board Lease Discussions

UPDATE

Since the December meeting staff has been following the progress of the GASB lease project and drafting the intragovernmental lease proposal. Staff also met with the Lease task force in early February to discuss the lease proposal.

STAFF ANALYSIS

As directed by the Board, staff has used the GASB Lease proposal to develop the proposed federal non-intragovernmental lease standards. **Attachment 1**is a draft proposal of the non-intragovernmental standards, that also includes 22 specific

[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.

questions for the Board. The questions highlight areas where the FASAB proposal deviates from the GASB proposal, areas where questions have been raised by the task force, and overall general questions about the proposal.

As noted above, during the last task force meeting several issues were raised in reference to the proposed non-intragovernmental lease standards. Some of those issues are specifically highlighted in the draft proposal. However one issue raised by the task force is discussed below.

Establishing Capitalization Thresholds for Lease

Since *SFFAS 6: Accounting for Property, Plant, and Equipment (PP&E)* specifically addresses capitalization thresholds,[2] there was a question by a task force member as to whether the lease standards would allow federal entities to establish capitalization thresholds for lease assets. GASB does not address the issue of capitalization thresholds in the standards sections of the lease exposure draft, but in the basis for conclusions.

> *GASB Leases Exposure Draft – par. B104. – Some stakeholders questioned whether governments would be permitted to set policy thresholds for capitalization of their leases, similar to those commonly used for capital assets. The Board views capitalization policies as methods to operationalize materiality; that is, those policies allow governments to specify amounts that they consider to be insignificant, individually and in the aggregate. The Board believes that a policy similar to those that establish capitalization thresholds could be used for leases. However, establishing such a policy is within the province of management and, accordingly, is not addressed in this Statement.*

Staff proposes that FASAB also address the issue of capitalization thresholds for lease assets similar to how it is addressed in SFFAS 6. Staff proposes the following language be added to the "Introduction" section of the proposal.

> As with property, plant, & equipment, the Board believes that capitalization thresholds should be established by Federal entities rather than centrally by the Board. Because Federal entities are diverse in size and in uses of lease assets, entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds for lease assets. Once established, this threshold(s) should be consistently followed and disclosed in the financial reports.

[2] SFFAS 6 – par. 13 states: "The Board believes that capitalization thresholds should be established by Federal entities rather than centrally by the Board. Because Federal entities are diverse in size and in uses of PP&E, entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds. Once established, this threshold(s) should be consistently followed and disclosed in the financial reports."

Q1. Does the Board agree with the staff recommendation to include the above capitalization threshold language in the Introduction section of the lease exposure draft?

Staff's meeting with the task force allowed us to hear the member's thoughts on the draft lease proposal and facilitated a productive discussion. However, due to time constraints, we were unable to address the entire proposal and staff has asked the task force members to submit any additional comments on the draft to staff via email. Staff will continue to address those task force comments with analysis and recommendations to the Board.

NEXT STEPS

Staff will revise the non-intragovernmental lease proposal as needed based on the Board discussion and continue to work with the task force to address any issues raised. Staff will also continue to work with the task force on the proposed intragovernmental lease standards.

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