

## **Leases Implementation Task Force Meeting Minutes**

September 6, 2019, 9:30 AM to 11:45 AM

441 G Street NW, Room 4N30 Washington, D.C.

### **Attendance**

Mr. Perry, FASAB senior analyst, was present throughout the meeting. Ms. Valentine, FASAB executive director, was present with a brief absence during agenda items 3 and 4.

Formal attendance was not taken due to the large task force membership and observer group constituency.

Fifteen task force members were physically present for the meeting, while many other members and observers dialed in. Seventy-nine phone numbers connected into the conference call.<sup>1</sup>

### **Introductions and Welcome (Agenda Item #1)**

The task force meeting officially convened at about 9:40 PM.

Ms. Valentine kicked off the meeting by welcoming task force members and thanking them for volunteering their time and expertise to serve and inform the FASAB's development of implementation guidance for lease accounting standards coming into effect in fiscal year 2021.

### **Overview of Task Force Timelines and Objectives (Agenda Item #2)**

#### Timelines

Mr. Perry provided an overview of the timelines using an excerpt from [page 5 of Tab G of the FASAB August meeting briefing materials](#) (Attachment 1). Mr. Perry noted that the Board approved the project plan during the August meeting, with timelines subject to change based on the results of task force meetings and, in particular those held in September and October, and the complexity, nature, and pervasiveness and extent of implementation issues identified. Mr. Perry detailed plans to provide a general summary on the state of implementation issues to Board members at the October meeting.

Implementation issues discussed over the course of the September and October task force meetings would be summarized to provide the Board with a general sense of the state of implementation. Mr. Perry suggested that implementation issues faced by preparers with significant lease portfolios would be especially relevant, and that he will reach out to representatives from these agencies directly to gather more information.

#### Objectives

Mr. Perry summarized three sub-projects related to implementation of Statement of Federal Financial Accounting Standards (SFFAS) 54. Task force members read detailed summaries of these in advance of the meeting (see Attachment 1, page 4).

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<sup>1</sup>The total meeting time was 135 minutes. 65 of 79 numbers connected for at least 30 minutes; 50 of 79 for at least 60 minutes; 43 of 79 for at least 90 minutes; and 36 of 79 for at least 120 minutes. Some numbers represent individual task force members/participants/observers, while others represent groups of members/participants/observers.

Mr. Perry expressed that the software licenses technical bulletin sub-project would be narrow in scope to address a need for guidance. When SFFAS 54 amendments to SFFAS 5 and 6 take effect in fiscal year 2021, such amendments would result in a gap in authoritative literature on the accounting treatment for software licenses. This technical matter was identified in a comment letter on the exposure document for proposed conforming amendments to existing technical releases resulting from SFFAS 54 and through multiple informal technical inquiries received by FASAB staff. Mr. Perry noted that the conforming amendments technical release under development—the second sub-project—will be revised in tandem with the technical bulletin sub-project.

A small working group of 7 to 9 task force members will support the software licenses working group on these two sub-projects. Mr. Perry noted that, given the narrow scope and objective to continue current practice, the working group should include primarily preparers affected by the related guidance. He requested anyone who wishes to join the working group to reach out to him via email.

Mr. Perry explained that the leases implementation guidance sub-project—the third projected listed in the meeting materials—was the primary purpose of the task force. The software-license-related conforming amendments technical release and technical bulletin sub-projects will both be handled by the working group under the direction of the Accounting and Auditing Policy Committee (AAPC) and the Board, respectively.

#### Discussion of Timelines and Objectives

One task force member noted that her agency<sup>2</sup> has a significant portfolio of leases, and has undertaken significant efforts to implement the standards for over one year. One of the primary challenges faced is to design, communicate, oversee, test, and implement systems requirements for automated lease accounting systems to enable agencies with large portfolios to account for the diverse, complex, and voluminous lease transactions and events (e.g., reimbursable work authorizations, leaseholder improvements, holdovers).

A task force member from another agency<sup>3</sup> echoed those challenges, noting that his agency addressing similar challenges.

Mr. Perry thanked the task force members for sharing that information, and noted that he will work directly with task force representatives from GSA, DHS, DOD, DOE, and a few other agencies to prepare for the October FASAB meeting and develop a current, complete, and accurate status of implementation to Board members.

Mr. Perry said that the next two meetings are designed to determine the extent to which FASAB can leverage (modifying as appropriate) the implementation issues discussed in the recently-released Government Accounting Standards Board (GASB) implementation guidance<sup>4</sup> as well as identify implementation issues unique to the federal government in the context of SFFAS 54 requirements. These efforts, in tandem with outreach to individual agencies with large lease portfolios, should result in an informative briefing to the Board in October.

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<sup>2</sup>The agency is a CFO Act agency.

<sup>3</sup>The agency is a CFO Act agency.

<sup>4</sup>GASB, *Implementation Guide 2019-3, Leases* (Norwalk, CT: Financial Accounting Foundation, August 2019).

Mr. Perry explained that any deferrals of lease accounting standards that may arise at Financial Accounting Standards Board (FASB), or—for that matter—other standards-setters, would not affect the implementation date of SFFAS 54. FASAB staff have received a few inquiries in response to the recent FASB approval to defer ASC 842, and asked that task force members inform their constituents and colleagues regarding any misperceptions or rumors related to such.

### **Overview of Administrative Items (Agenda Item #3)**

Mr. Perry mentioned that the October task force meeting would have both in-person attendance and conference call options; however, he predicted that as the task force's work continues on in November and December, electronic collaboration will continue, and meetings may eventually transition exclusively to conference calls at some point.

Task force members reviewed administrative-related items in advance of the meeting (Attachment 2). Accordingly, Mr. Perry provided a brief overview of the material and asked whether or not members had any follow-up questions in response to the administrative-related materials. Members had no questions related to the administrative materials.

### **Discussion of GASB Implementation Guide 2019-3 and task force review of staff's content analysis (Agenda Item #4)**

#### Purpose of the Analysis

Task force members reviewed FASAB staff's preliminary coding of GASB *Implementation Guide 2019-3, Leases* in advance of the meeting (Attachment 3). Mr. Perry recapped the purpose of the content analysis: to assess the applicability of the accounting issues raised by GASB implementation guidance questions; task force members did not assess the applicability of the answers.<sup>5</sup> Staff coded the implementation guidance in three highlight colors, representing the following categories of questions: (1) applicable and relevant to federal entities, (2) applicable with modifications to ensure applicability to federal entities, (3) not applicable in the federal environment.

Task force members were asked to carefully read the questions in the guidance and coding and respond to the coding in advance of the meeting, noting concurrence and any specific differences of opinion. This effort will assist staff in gathering information to develop a population of question candidates for AAPC consideration.

#### Question and Answer Format

One task force member inquired as to whether the FASAB implementation guidance will also be in question-and-answer format. Mr. Perry said that FASAB implementation guidance has occasionally used this format when circumstances warranted. He anticipates recommending that the AAPC pursue such a format. Question-and-answer format would likely provide relevant, digestible content specific to the needs of the community. He acknowledged that there may be certain implementation issues that are not conducive to question-and-answer guidance; in that event, there may be a need to include a separate section that is not in question-and-answer format. Mr. Perry asked task force members to email him in the coming days if they had any reservations about using question-and-answer format.

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<sup>5</sup>GASB, *Implementation Guide 2019-3, Leases* is in question-and-answer format, which is common practice for implementation guidance.

## Results

Mr. Perry summarized the responses to his content analysis, noting that task force members that had responded concurred with the coding.

Mr. Perry noted that responses to Attachment 4 were also helpful in identifying modifications necessary when developing analogous questions in the federal context. These comments will be considered with drafting question candidates.

Mr. Perry invited task force members to raise significant differences of opinion or concerns identified in their reviews of staff's preliminary coding; no concerns were raised.

## **Discussion of Survey Responses (Agenda Item #5)**

Mr. Perry noted that, although he had completed reviews of over half of the responses, he did not have sufficient time to complete reviews of all responses prior to the meeting. Mr. Perry assured members that this would not hinder discussions, and that a consolidated analysis of task force responses to Attachment 4 would be provided in advance of the October task force meeting to facilitate continued discussions. Mr. Perry walked members through how he was conducting his analyses of responses. Mr. Perry also stated that he intends to work one-on-one with respondents to reconcile key differences of opinion identified by task force members when reviewing his analyses.

## Purpose of the Survey

Mr. Perry reminded task force members that the survey matrix (Attachment 4) was to identify implementation issues not covered by analogous questions in GASB implementation guidance questions.

One task force member asked whether staff identified overlap between GASB implementation guidance and task force member responses to the survey. Mr. Perry noted that respondents had done an excellent job of following the instructions in the survey and, as is consistent with the desired outcome, responses that he had reviewed thus far did not flag duplicative implementation issues covered by analogous GASB implementation guidance.

## Results and Discussions

Mr. Perry briefly summarized responses he had analyzed and noted several unique implementation issues that will serve as preliminary candidates for implementation guidance questions include, but are not limited to:

- Effects on and relationships to (or absence thereof) budgetary scoring
- Service concession arrangements
- Interrelationships between SFFAS 54 and SFFAS 47, *Reporting Entity*, and SFFAS 49, *Public-Private Partnerships* and opportunities to assist agencies with harmonizing disclosures
- Leases of assets under construction
- Definitional differences between the GASB and FASAB lease definition and the meaning of the phrase "in exchange for consideration" in the FASAB definition
- Mr. Perry pointed out that there may be opportunities to address issues raised by survey respondents related to under-reimbursed and non-reimbursed inter-governmental leasing

arrangements based on guidance in SFFAS 4, *Managerial Cost Accounting Standards and Concepts*

- Challenges in interpreting lessor and leasehold improvement definitions (paragraphs 11 and 12) in conjunction with lease incentives requirements in certain situations
- Definition of “probable”
- Measuring purchased assets (for lessees) and financed sales (for lessors) for contracts and agreements that transfer ownership
- The phrase “significant leases”
- Intergovernmental arrangements, such as Reimbursable Work Authorizations (RWAs), and international arrangements, such as International Cooperative Administrative Support Services (ICASS)
- Intergovernmental lease disclosure requirements
- Accounting treatment of certain executory costs
- Leases of heritage assets and stewardship land
- Discount rates
- Absence of readily-available values for leased asset components
- Materiality considerations for accounting for leased asset impairments

One task force member noted that RWAs, leasehold improvements, and implementation guidance for determining the commencement date in unique situations (e.g., when commencement is in stages) are key matters that their agency would like to have implementation guidance on as a basis for their approach.

Another task force member reiterated that interest rate implementation guidance would be helpful. This member also noted that implementation guidance on the accounting treatment for certain executory costs would also be helpful.

### **Next Steps**

One task force member asked about how to obtain information from GSA to ensure proper alignment and consistent treatment with respect to intergovernmental leases.

Other task force members stated that information sharing would facilitate proper implementation.

Members from GSA and the Bureau of Fiscal Service (FS) agreed that information sharing would be helpful. An FS representative indicated that, potential changes needed to the United States Standard General Ledger (USSGL) are of particular interest to FS stakeholders.

Mr. Perry agreed with these views and offered to be a facilitator between GSA, FS, and task force members and their organizations. Mr. Perry noted he could coordinate with GSA and FS representatives to consider holding one or two information-sharing meetings between their organizations and the community. Mr. Perry also offered to assist in the development of the objectives, scheduling, and format of such meetings if needed.

1. Mr. Perry stated that he will:

- a. Complete and distribute a working file of a consolidated listing of implementation issues identified by task force member respondents to Attachment 4 in advance of the next task force meeting

This listing will omit certain responses that either (a) did not—in the view of staff—warrant implementation guidance, or (b) require follow-up or clarification from the respondent

- b. Follow up directly with respondents to discuss his analyses of their survey responses. He will obtain clarification and reconcile and/or discuss any specific differences of opinion if members wish to do so
- c. Begin drafting a list of implementation guidance question candidates for future discussion
- d. Meet one-on-one with GSA representatives in the coming weeks to learn more about specific and complex implementation issues faced at that agency

2. Task force members will:

- a. Communicate any reservations about question-and-answer format in the next few weeks
- b. Reach out to Mr. Perry if they wish to volunteer for the software licenses working group
- c. Provide late submissions of Attachment 4 if they wish to do so

**Adjournment**

Ms. Valentine and Mr. Perry thanked the task force for a productive meeting.

The meeting adjourned at about 11:55 AM.

The next meeting will be Friday, October 4<sup>th</sup> at 9:30 AM in the GAO building and via teleconference.

## **Leases Implementation Task Force Meeting Minutes**

October 4, 2019, 9:30 AM to 11:15 AM

441 G Street NW, Room 4N30 Washington, D.C.

### **Attendance**

Mr. Perry, FASAB senior analyst, was present throughout the meeting. Formal attendance was not taken due to the large task force membership and observer group constituency.

Nine task force members were physically present for the meeting, while many other members and observers dialed in. Seventy-two phone numbers connected into the conference call.<sup>1</sup>

### **Introductions and Welcome (Agenda Item #1)**

The task force meeting officially convened at about 9:35 PM. Mr. Perry kicked off the meeting by welcoming task force members. He summarized the objectives for the meeting, as well as the current project status and timelines.

### **Preparations for the October 23rd Board Meeting; Issues Discussed with Stakeholders Since the September 6<sup>th</sup> Meeting (Agenda Item #2)**

#### Preparations for the October 23<sup>rd</sup> Board Meeting

Mr. Perry provided an overview of the timelines using an excerpt from [page 5 of Tab G of the FASAB August meeting briefing materials](#) (Attachment 1). Mr. Perry noted that the Board approved the project plan during the August meeting, with timelines subject to change based on the results of task force meetings and, in particular those held in September and October, and the complexity, nature, and pervasiveness and extent of implementation issues identified. Mr. Perry detailed plans to provide a general summary on the state of implementation issues to Board members at the FASAB October meeting. He announced that task force members from the General Services Administration (GSA), Department of Defense (DoD), and Department of Energy (DOE) will speak on a panel at the October Board meeting.

Mr. Perry explained that the October Board meeting briefing materials had not yet posted, but encouraged the task force to dial into the Board meeting and review the briefing materials and minutes as they are posted (see [fasab.gov, board meetings page](https://fasab.gov/board-meetings)). He noted that the session on leases is scheduled for October 23<sup>rd</sup> at 1:30 PM ET.

Mr. Perry reminded task force members that he will continue to make every effort to complete tasks in line with the fiscal year 2021 project plan, but that the plan may change as a result of the Board meeting discussions. He encouraged task force members to do the same at their agencies.

#### Issues Discussed with Task Force Stakeholders since the September 6<sup>th</sup> Meeting

Mr. Perry and GSA representatives recounted the meeting, summarizing some of the key issues. Mr. Perry and GSA representatives noted that many of these issues will be reflected in staff's consolidated list of implementation issues and question candidates. It was noted that many of the

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<sup>1</sup>The total meeting time was 105 minutes. 58 of 72 numbers connected for at least 30 minutes; 53 of 72 for at least 60 minutes; and 41 of 72 for at least 90 minutes. Some numbers represent individual task force members/participants/observers, while others represent groups of members/participants/observers.

implementation issue candidates will help address potential sources of intragovernmental differences.

Another task force member pointed out that “evergreen” leases—periods which are cancellable by both parties at any time—would not be included in the lease term based on the current language in paragraph 19.a of SFFAS 54. The member noted that this practice would not be consistent with the intent of the standard or reflect the economic substance of many leases. Month-to-month “evergreen” leases need not necessarily carry an agreed-upon period that is not cancellable when economic incentives and disincentives for cancellation by either party would prevent either party from terminating the lease. The task force member noted that her organization has come across many leases that would not be recognizable under paragraph 19.a. Task force members generally agreed that, although evergreen leases may not be common practice at their entities at this time, this is a valid concern.

Mr. Perry expressed that an amendment to paragraph 19.a may warrant consideration. He observed that a simple edit to the paragraph may address the issue:

*19.a Periods for which both the lessee and lessor (1) have an option to terminate the lease without permission from the other party or (2) have to agree to extend are cancelable periods and are excluded from the lease term. For example, month-to-month lease holdovers, also referred to as rolling lease extensions, or any lease that continues into a holdover period until a new contract or agreement is signed would be considered cancelable if both the lessee and the lessor have an option to terminate. Therefore, either could cancel the lease at any time. These holdover periods are cancelable periods and should be considered, along with economic incentives of the lessor and lessee and other relevant factors, excluded from when determining the lease term.*

Mr. Perry noted that GASB implementation guidance<sup>2</sup> addresses a similar issue in question 4.13, noting that the GASB guidance, similar to the FASAB guidance, excludes such periods from the lease term. Mr. Perry noted that excluding such periods in the lease term may be based on the concept of control and other accounting concepts surrounding the definition of an asset. Nevertheless, Mr. Perry expressed that he would raise the issue to the Board because one of the objectives of the new standard is to reflect the financial and economic positions of reporting entities on the balance sheet. Task force members concurred with this approach.

### **Task Force Discussion of Staff Analysis and Compilation of Implementation Issue Candidates (Agenda Item #3)**

Task force members concurred with the accuracy of the items reflected on the list presented in the meeting materials (Attachment 2) but provided input to improve the completeness of the listing. Mr. Perry asked task force members to identify candidates in each topic area that were not yet on the list. Topics added during the meeting included:

- The right to control use (paragraph 2)
- Arriving at matching intragovernmental lease terms beyond the non-cancellable period
- Real estate examples and support of assumptions when reporting entities enter into leases with the public and information from the counterparty may not be complete or available (paragraphs 14-21). *Staff note: Staff will confer with the Executive Director and AAPC to determine how best to handle topics that have nexus to audit evidence. The AAPC refers*

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<sup>2</sup>GASB, Implementation Guide 2019-3, *Leases* (Norwalk, CT: Financial Accounting Foundation, August 2019).

*audit issues to OMB and GAO in connection with their responsibilities for the Audit Bulletin and GAGAS, respectively*

- Reflecting the use of lease terms in estimation methodologies of lease assets and liabilities
- Accounting for right-to-use sub-lessee improvements to lease assets paid to the original lessors by the sub-lessors
- Examples of returning underlying assets to lessors in their original or enhanced conditions (paragraph 66). *Staff note: Task force members are perplexed by some of the language in paragraph 66 because they have not come across examples of this in the lease agreements at their organizations.*

## **Next Steps (Agenda Item #4)**

### Drafting Implementation Guidance Q&A in Bundles

Task force members agreed that it would be helpful to receive draft implementation guidance questions and answers in bundles for their review. Staff agreed to provide questions in bundles of 25-30 questions at a time so as to not overwhelm task force members with voluminous technical content to review in short timeframes. Mr. Perry acknowledged that agencies will be busy with year-end issuance of financial reports, and promised to be sensitive to task force members' workloads. He noted, however, that the project and work of the task force must continue regardless due to time constraints.

Mr. Perry informed the task force that he will reach out to individual members for assistance in drafting certain guidance when it is likely to be particularly relevant to their organizations. This will ensure that the guidance has value.

Mr. Perry cautioned task force members that questions and answers in implementation guidance typically will answer only one or two specific issues in each question and answer. Otherwise, it may become challenging for users to interpret the applicability of such questions and answers to their specific scenarios. He noted that the objective of providing useful guidance to a broad constituency while also addressing the variety of complex issues that are often experienced concurrently is a challenge; task force assistance and mindfulness of this balancing act will be needed during reviews of the draft questions.

### Software Licenses Working Group

Mr. Perry noted that he will soon convene a software licenses working group. The scope of the software licenses working group's duties will be narrow. Mr. Perry reminded task force members that the draft technical bulletin will not change current practice. Rather, it is intended to address the need for guidance once SFFAS 54 amendments to SFFAS 5 and SFFAS 6 go into effect. Mr. Perry noted that, given the limited scope and duties of the task force, he would only need 3-7 working group members; primarily preparers who are familiar with accounting for software licenses. *Staff note: the first working group meeting is scheduled for February 20<sup>th</sup>.*

### October 23<sup>rd</sup> FASAB Board Meeting Session on Leases Implementation

Mr. Perry reiterated that task force members are invited to call in or attend the October 23<sup>rd</sup> FASAB meeting and task force panelists' presentations to the Board regarding leases implementation. Mr. Perry stated that he would reach out to the IT department and verify that the FASAB meeting phone line has enough phone lines available, given the level of interest for this meeting session.

## Next Steps

Mr. Perry stated that he will:

- a. Begin drafting the first bundle of questions and answers.
- b. Follow up directly with task force members to obtain clarification as needed.
- c. Be in contact with task force members on the software licenses working group.
- d. Continue to discuss implementation issues one-on-one with task force representatives—in-person, over the phone, and electronically—in the coming weeks

Task force members will continue to communicate implementation issues to Mr. Perry as they are identified.

## **Adjournment**

Mr. Perry thanked the task force for a productive meeting.

The meeting adjourned at about 11:20 AM.

The next meeting will be Friday, ~~November 1st~~ December 6<sup>th</sup> at 9:30 AM in the GAO building and via teleconference.

*Staff note: The November 1<sup>st</sup> meeting was cancelled subsequent to adjournment. It was cancelled to allow additional time for staff to process feedback received to-date, draft the first bundle of questions and answers, and prepare for the forthcoming software licenses working group and AAPC meetings. The cancellation will also enable task force members to focus on their fiscal-year-end reporting tasks. The December 6<sup>th</sup> task force meeting remains on the task force's schedule.*