

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.¹

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 6th Meeting (Agenda Item #2)

Preparations for the October 23rd 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 23rd 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 6th 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

¹The 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 guidance² 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*

²GASB, 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 20th.*

October 23rd FASAB Board Meeting Session on Leases Implementation

Mr. Perry reiterated that task force members are invited to call in or attend the October 23rd 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 6th~~ January 28th via teleconference and WebEx.

Staff note: The November 1st and December 6th meetings were cancelled subsequent to adjournment 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 cancellations also allowed task force members to focus on their fiscal-year-end reporting tasks.