

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

April 15, 2020, 1:30 PM to 4:00 PM

Video Conference (WebEx)

### **Attendance**

Mr. Perry, FASAB senior analyst, and Ms. Christi Dewhirst, FASAB fellow on detail from GSA, were present throughout the meeting. Formal attendance was not taken due to the large task force membership and observer group constituency.

This meeting was held via WebEx, and all members and observers dialed in. One-hundred phone numbers connected into the conference call.

### **Welcome, overview of meeting objectives, project status and timelines (Agenda Item #1)**

#### Introductions and Welcome

The task force meeting officially convened at about 1:30 PM. Mr. Perry kicked off the meeting by welcoming task force members. He noted that about 10-15 new members had joined the task force mailing list in recent weeks and expressed regret that a few members were unable to join the call due to an unprecedented number of callers. At future meetings, the number of lines will be increased from 100 to 300 lines to better accommodate the level of interest. Members who were unable to participate are encouraged to review the meeting minutes and provide input electronically.

#### SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*

Mr. Perry thanked the task force for their participation in the deferral project. The Board approved deferring the effective date of SFFAS 54, *Leases*, to reporting periods beginning after September 30, 2023. The expected issuance date of SFFAS 58 is June 19, 2020.

#### Software Licenses Working Group Update

The software licenses working group, which includes several members from the leases implementation task force, has met several times over the winter. The working group was originally slated to be included on the Board's April agenda. Mr. Perry noted that representatives of the working group will be briefing the Board on their initial findings and recommendations. This briefing has been delayed, and staff plans to include the topic on the Board's June agenda.

#### Review Updated Project Plan

For the benefit of new task force members, Mr. Perry provided an overview of the leases implementation project plan (Attachment 1). The updated project plan was updated to reflect a three-year deferral rather than a two-year deferral. Otherwise, the timelines remain unchanged. Mr. Perry noted that he and Ms. Dewhirst are adjusting their plans for providing training and outreach to the federal community due to COVID-19. He noted that they are exploring opportunities to provide online, NASBA-certified training during the summer. In addition, FASAB plans to release a YouTube video about the leases project sometime in May.

## **Task Force Discussion of Draft Implementation Guidance (Agenda Item #2, First Bullet)**

### Revisiting the Scope/Definitions Topic Area

Mr. Perry asked task force members to provide input, question-by-question, as he recapped the edits made under the topic area (Attachment 2) based on task force feedback at the [January 28<sup>th</sup> meeting](#).

On question 4, an agency<sup>1</sup> had previously asked about SFFAS 55, *Amending Inter-entity Cost Provisions*, and considerations for imputed costs. Mr. Perry indicated that a clarifying edit, which expanded the paragraph reference from 109 to 108-113A, was indeed necessary after further researching and discussing the technical issue with another FASAB technical staff member. Task force members generally agreed with the edits related to this previously-discussed issue.

One task force member suggested that the answer to question 4 add emphasis to highlight that paragraphs 111-112 of SFFAS 4 includes significant qualifiers regarding when such inter-entity recognition is required and when it is optional. Mr. Perry agreed to work with the task force member to make clarifying edits to the answer.

Another task force member questioned whether the question should also address rebates and subsidies that may in substance result in below-market rent. Mr. Perry agreed to include the matter as a candidate for a separate question, indicating that layering that implementation issue onto the same question and answer may overly-complicate the original implementation issue that the drafted question and answer are intended to clarify.

On question 5, the task force had discussed whether SFFAS 54 was as explicit regarding periods of interruption when compared to Statement No. 87. Mr. Perry noted that the SFFAS language aligns with that of the GASB Statement. Accordingly, staff concluded that the implementation guidance should be consistent with Implementation Guide 2019-3 Q4.2-4.3 to reflect the intent of the FASAB to remain consistent with GASB as it relates to periods of interruption.

On question 6, Mr. Perry pointed out a minor clarifying edit that he made as a result of the January task force meeting.

On question 8, the task force had previously noted that this question seemed redundant to an earlier question. Mr. Perry reviewed the original GASB question to verify that the absence of distinct implementation issues between the corresponding questions. Mr. Perry concluded that the question could be removed based on that review, as previously suggested by the task force.

Mr. Perry asked whether there are additional technical issues that task force members wished to discuss before moving on to the next topic area.

Members agreed to move on to the next topic areas and to provide minor technical comments and questions to staff electronically for consideration.

## **Task force discussion of newly-drafted topic areas (Agenda Item #2, Second Bullet)**

Ms. Dewhirst directed task force members' attention to newly-drafted topic areas, inviting members to provide input and ask questions as she recapped each question and answer the intended implementation issue to be clarified by each.

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<sup>1</sup>The agency is a CFO Act agency.

## Lease Term

On questions 13, 15, and 17, the task force had no technical comments. One agency noted a few examples of minor inconsistencies in terminology may result in challenges by users in reading and interpreting the guidance (e.g., “lessee/lessor,” reporting entity,” “counterparty;” other examples where the lessee/lessor perspective could be clarified include questions 20-22)

On questions 14 and 16, the task force discussed month-to-month holdover periods when both the lessee and lessor have the right to cancel. Ms. Dewhirst discussed staff proposals to close a potential loophole previously identified by a task force member regarding evergreen leases. Task force members suggested including examples of scenarios when such holdover periods would remain excluded from the lease term. Ms. Dewhirst and Mr. Perry agreed that the guidance should address those types of scenarios as well.

On question 18, a task force member observed that the term “probable” first appears in question 17 but is definite in question 17. Ms. Dewhirst agreed that re-ordering the questions may be appropriate. Mr. Perry agreed, but noted staff will need to carefully review the section as a whole to ensure that there are no other sources of intended confusion that would result from the re-ordering.

On question 19, Ms. Dewhirst and Mr. Perry pointed out that some examples of other factors that may be relevant in assessing lease term as well as the need to apply professional judgment when various economic and policy incentives/disincentives may conflict with one another in determining whether or not significant evidence that the counterparty will renew. Mr. Perry noted that it will not be possible and staff will not be able to develop a comprehensive set of factors or examples in the guidance; such an effort is not practicable and may be perceived as a checklist by readers. Staff can only use illustrative examples that are consistent with SFFAS 54.

## Short-term Leases

On questions 20 and 21, the task force did not have any technical comments.

On question 22, Ms. Dewhirst explained that the question is intended to close another loophole related to contract combinations. The task force did not have any comments.

On question 23, task force members expressed concerns regarding the reassessment of the lease term criteria reflected in paragraph 21 of SFFAS 54. Task force members discussed whether there may be confusion regarding the term “elects.” Mr. Perry noted that SFFAS 54 and Statement No. 87 use the same terminology. Mr. Perry referred task force members to Statement No. 87 basis for conclusions paragraph B26 for rationale regarding the GASB’s decision to use such language.

On question 24, task force members discussed implementation issues surrounding potential ambiguities between stepped rent increases versus rent concessions. Ms. Dewhirst noted that the question, as drafted, reflects what staff believes to be the intend of the Board; however, staff found that language from SFFAS 54 paragraph 31 would need to be integrated into the short-term leases section in order for consistent application of paragraph 31 across both short-term and intragovernmental leases (as paragraph 31 only applies to intragovernmental leases). Ms. Dewhirst further recounted how she and Mr. Perry initially came to different conclusions regarding the answer to the question as drafted; she had believed the drafted question reflected a stepped rent increase from year 1 to year 2 (which would not straight-lined over the lease term), while Mr. Perry noted that the significance of the price increase over one year (50%) was more economically reflective of an embedded concession in year one (which would be straight-lined). It is important to note that the answer also acknowledges that other justifying factors may be present that may affect the conclusion. Task force members observed that there is a gray area and professional judgment may

be required in many cases when it is not clear whether a contract includes rent increases or lease concessions. The question and answer are intended to highlight that.

#### Contracts or Agreements that Transfer Ownership

On question 25, the task force did not have any technical comments.

On question 26, the task force did not have any technical comments, but suggested that staff consider integrating specifics regarding the accounting treatment of financed purchases.

One agency<sup>2</sup> representative asked staff to consider including guidance addressing energy-saving performance contracts and whether or not such contracts meet the definition of a lease. Ms. Dewhirst and Mr. Perry agreed to address ESPCs in the guidance. Staff will work with task force members and perform additional research to determine how best to address ESPCs in the scope/definition topic area.

#### Intragovernmental Leases

On question 27, task force members had no comments.

On question 28, Ms. Dewhirst noted that staff will research whether paragraph 31 may need to also address lessor accounting treatment of rent increases.

On question 29, task force members recommended that staff also describe the appropriate lessee accounting treatment within the answer. Ms. Dewhirst agreed.

Ms. Dewhirst thanked the task force for both the verbal feedback and discussion as well as the electronic comments provided in advance of the meeting. Ms. Dewhirst encouraged task force members with additional comments to please provide those electronically after the meeting.

Staff will document task force members' feedback in the meeting minutes and review the edits made as a result of task force feedback at the May meeting.

### **Next Steps (Agenda Item #3)**

#### Next Topic Areas (Projected)

Ms. Dewhirst indicated that the next topic areas to be addressed will be (1) Lessee Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases, and (2) Lessor Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases.

Ms. Dewhirst and Mr. Perry noted that they anticipate these two topic areas will be the most technically challenging.

Mr. Perry strongly encouraged task force members to carefully review those topic areas and consider what types of unique implementation issues they may experience in the areas of recognition, measurement, and re-measurement.

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

### April Board Meeting

Mr. Perry noted that the leases implementation project is not on the April Board meeting agenda.

### AAPC May Meeting

The next AAPC meeting is scheduled for May 7, 2020. The AAPC will consider the working draft of the implementation guidance for all sections completed at that point, which will include all guidance developed by the task force through today's meeting (including any edits resulting from today's meeting and feedback received thereafter).

### Next Steps

Mr. Perry and Ms. Dewhirst will:

- a. Continue drafting the next 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 regarding the June meeting.
- 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 and Ms. Dewhirst as they are identified.

### **Adjournment**

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

The meeting adjourned at about 4:00 PM.

The next task force meeting will be Tuesday, May 12<sup>th</sup>, at 1:30 PM via WebEx and teleconference.