

## Accounting and Auditing Policy Committee (AAPC) Meeting Minutes

May 7, 2020, 1:00 PM ET  
WebEx and Conference Call

### Attendance

#### Members

Present: Ms. Monica Valentine (FASAB, Chair)  
Mr. Brett Baker (At-Large)\*  
Ms. Rebecca Evertsz, for Ms. Kim Laurance (CFOC)  
Ms. Carol Johnson (OMB)\*  
Mr. Prasad Kotiswaran (CFOC)  
Ms. Patricia Layfield (CIGIE)  
Mr. Elliot Lewis (CIGIE)  
Mr. Walter Obando, for Mr. Kurt Hyde (CIGIE)  
Mr. Joseph O'Neill (GAO)

#### Staff

Mr. Ricky Perry, Senior Analyst  
Ms. Christi Dewhirst, Fellow

Apologies: Mr. Brian Casto (Treasury)  
Mr. Robert Smalskas (CFOC)

\* Briefly absent between 4:00 PM and adjournment (intragov. leases topic of agenda item #4 and agenda item #5)

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

The meeting began at 1:00 PM. Ms. Valentine kicked off the meeting by introducing a new member, Mr. Prasad Kotiswaran. Mr. Kotiswaran was nominated by the CFO Council and is Director of Financial Administration at the Small Business Administration. Members and staff welcomed Mr. Kotiswaran.

Mr. Perry introduced Ms. Christi Dewhirst. Ms. Dewhirst is serving as a FASAB Fellow on the leases implementation project, on assignment from the General Services Administration. Ms. Dewhirst explained that she would be working with Mr. Perry on the implementation guidance and omnibus amendments projects, serving a one-year detail. She expressed her excitement to work with the committee going forward.

Ms. Valentine expressed her appreciation for Christi's work thus far. She also explained that detail assignments benefit the Board, AAPC, assigning agencies, and FASAB constituencies through enhanced collaboration and specialized insights from assigning agencies. These result in improved Board and AAPC products.

### Updates on Recent Task Force, Board, and Other Developments (Agenda Item #2)

Mr. Perry noted that SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, is scheduled to be issued on June 19, 2020. The requirements of SFFAS 54 will be deferred by three years to reporting periods beginning after September 30, 2023. Mr. Perry expressed staff's appreciation to the task force and community for providing insightful feedback on the underlying implementation challenges and risks associated with the originally proposed two-year deferral. He explained that the feedback from the exposure draft phase resulted in a swift unanimous approval by the Board to extend the proposed effective date by an additional year.

Ms. Valentine directed committee members to tab A.2 of the [meeting materials](#). Ms. Valentine summarized the Board's Coronavirus Disease 2019 (COVID-19) response for the AAPC. She described the Board's three-pronged approach, which focuses on technical assistance, training, and enhanced coordination between the Board, technical staff and Board sponsors to rapidly respond and coordinate in addressing accounting issues brought forth by the community. Ms. Valentine pointed out that because no pronouncements become effective in fiscal years 2020 and 2021 the Board does not need to take additional actions to defer existing pronouncements at this time. Ms. Valentine also explained ongoing training efforts, a forthcoming YouTube video on leases, and other ways that the technical staff are quickly adapting to meet the community's needs.

Mr. Perry directed the committee's attention to the project plan in tab A.1 of the meeting materials. He noted a number of variables and key milestones affecting the implementation guidance project that may modestly affect the timelines but expressed optimism the exposure draft would be released for public comment in October or November.

Mr. Perry informed the committee that staff intends to recommend, both to the committee and to the Board, that the AAPC's implementation guidance proposal and the FASAB's omnibus amendments to SFFAS 54 proposal be released for public comment in a joint exposure draft. This would be the Board's first ever joint exposure draft, but other standards-setters have taken a similar approach at times. He explained that a joint exposure draft would: (a) reduce duplication of work and comments by respondents, (b) facilitate informed responses, and (c) streamline staff's analysis of stakeholder feedback on the proposals. The proposal to issue a joint exposure draft will be discussed at the Board's June meeting. Committee members were supportive of the proposed approach.

#### **Discuss Draft Implementation Guidance (Agenda Items #3 and 4)**

Mr. Perry directed members to tab C of the meeting materials. At the request of Mr. O'Neill, Mr. Perry recapped the task force and AAPC efforts to-date. Task force members have undertaken a systematic process to identify implementation issues by performing a content analysis of Governmental Accounting Standards Board implementation guidance and by submitting other implementation issues that may be candidates for discussion within FASAB guidance. Staff is now drafting guidance and circulating it piecemeal to the entire task force and then the committee for review. All draft guidance provided to the committee has been discussed at a previous task force meeting and undergone at least one round of review by the task force. The task force will meet on May 12, June 11, and July 14 for additional rounds of reviews and discussions.

Mr. Perry invited members to provide feedback and edits on draft questions in numerical order.<sup>1</sup> Ms. Johnson requested clarification regarding the preferred types of feedback and edits warranting discussion versus that which could be provided electronically. Mr. Perry and the committee agreed that simple, quick edits along with comments and feedback regarding the theory, soundness, and usefulness of each question and answer should be discussed. More complex editorial remarks are best provided electronically or on later versions.

Paragraph 4: Mr. O'Neill and Ms. Valentine observed that the second part of the answer should reflect the applicability to inter-entity (intragovernmental) costing. The second part of the answer would not apply to transactions with the public. Staff will make that change.

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<sup>1</sup>Through use of the presentation / shared screen (controlled by staff) function in WebEx, the committee viewed and provided feedback on the draft guidance as staff walked them through the document. Staff made edits and notations to implement and track such feedback.

Paragraphs 5 (and others): Committee members recommended expanding “yes/no” answers (which often appear at the beginning of answer paragraphs in the draft) to provide more specificity and linkage back to the specific question to which it relates.

Paragraph 6: Committee members recommended multiple clarifying edits to the question and the answer, including to (i) clarify in paragraph 6.a that other right to use assets (agriculture use) derived from the PP&E were assigned to other parties, (ii) although noted in paragraph 6, find a way to reiterate in paragraph 6.b that the agreements described in 6.a and 6.b are separate and distinct.

Paragraph 9: Staff explained that the question and answer, as currently drafted, was sound and illustrative of the complex, situational/contract-based nature of the Statement. He also noted that the answer left a few task force members asking for examples of cell phone tower / antenna placement agreements that *do not* meet the definition of a lease. Some task force members indicated that an illustrative example based on existing agreements that do not meet the definition of a lease may provide helpful guidance. Mr. Perry indicated that the FirstNet public-private partnership might have some examples. Ms. Valentine suggested that Mr. Perry reach out to Mr. Domenic Savini and members of the task force from the Department of Commerce to research the issue.

Paragraph 11: Mr. O’Neill recommended that Mr. Perry clarify the scope and applicability of Statement 38. It may be necessary to make clarifying edits to distinguish between “accounting requirements,” “disclosures” (i.e., notes), and required supplementary information (RSI). Staff agreed that these edits would be helpful.

Paragraphs 14 and 16: Ms. Dewhirst explained the proposed omnibus amendments to paragraph 19.a of Statement 54, noting that the intent is to close loopholes for structuring agreements that circumvent the requirements when there might be significant evidence that the resulting reporting would be misleading. Ms. Valentine agreed that the proposal is in line with the original intent of the Board. Staff will present the proposed omnibus candidate to the Board in June. The committee recommended clear labelling, with call-out boxes or something similar, on any proposals that are directly related to and/or cite paragraphs affected by the omnibus amendments proposals. Such markings would facilitate informed responses to the exposure draft and can ultimately be removed in the finalized pronouncements.

Ms. Johnson shared concerns regarding the extent to which the proposed guidance may exacerbate or create complexities for preparers. She observed that the drafted guidance may seem rather extensive and complex to some in the community. Ms. Valentine understood the concern but noted that the intent of the guidance is really to be used for performing research and reviewing explanations of issues that might arise that are similar in nature to the scenarios in the guidance. Mr. Perry agreed and suggested that the guidance is a mere reflection of the vast breadth of lease transactions and lease accounting implementation issues. He noted that parenthetically cross-referencing between related questions, aligning terminology to Statement 54, and organizing the sections of guidance by topic should serve to mitigate the burdens associated with reviewing the guidance and performing research therein. Ultimately, the guidance should facilitate implementation.

Paragraphs 18 and 19: Mr. Perry noted that these paragraphs had recently been updated (after the meeting materials distribution) to reflect recent task force suggestions. The revisions provide illustrative examples of the types of factors that may be relevant when assessing lease terms.

Paragraph 23: Ms. Layfield raised concerns that preparers may take advantage of loopholes related to excluding option periods from the lease term at initial measurement and later including them when they make elections to extend. Ms. Dewhirst and Mr. Perry acknowledged that there is some level of judgement involved, but preparers and auditors will have qualitative and quantitative evidence that may serve preparers and auditors as evidence for including or excluding option years, as

appropriate, and verifying that estimated lease terms are reflective of all relevant factors and aligned with historical behaviors for making elections for option years at a portfolio level.

Paragraph 27: One task force member provided technical comments and corrective edits. Staff agreed with those edits.

Mr. Perry explained that staff intends to propose omnibus amendments to the Board related to paragraph 31 of SFFAS 54 (step rent increases) by (a) including similar language in the short-term leases section of the Statement (paragraph 31 is only under the intragovernmental section of the Statement) and (b) modifying the language to include rent decreases. Mr. Perry reported that he believed, based on his research of SFFAS 54 deliberations and his consultations with Ms. Valentine, the Board likely intended for step rent increases and decreases to be treated consistently for short term leases and intragovernmental leases. The committee was supportive of these proposals, noting that they will provide needed clarification and practical methods for implementing the requirement.

### **Discuss Next Steps (Agenda Item #5)**

Mr. Perry summarized next steps as follows:

- Staff will distribute the next segment of draft implementation guidance to the committee in the next 1-2 weeks, to include approximately 25 questions and answers on the topics of lessor recognition/measurement/disclosures, intragovernmental disclosures, a basis for conclusions (exposure draft version), and a few illustration proposals.
- The remaining draft implementation guidance will be provided to the committee prior to the August 12-13 meeting in a third and final distribution leading up to the meeting.
- In response to a question from Ms. Johnson, Mr. Perry invited committee members to provide edits and technical comments on drafts at the timing of their choosing. It may prove beneficial to wait until a later version and provide comments then, but staff welcomes members to provide edits and comments on each version if they wish.

Mr. Perry recommended, after consulting with Ms. Valentine, adding a supplementary AAPC meeting on September 16. Although the meeting may not ultimately be necessary, staff believes the supplementary meeting will be necessary for purposes of finalizing the proposal and voting on its release for public comment in advance of the October Board meeting. The committee agreed to schedule the supplementary meeting on that date.

### **Adjournment**

Ms. Valentine thanked the committee for a productive meeting and their insightful feedback.

The meeting adjourned at 4:16 PM.