

Accounting and Auditing Policy Committee (AAPC) Meeting Minutes

August 12-13, 2020, 1:00 PM ET
WebEx and Conference Call

Attendance

Members

Ms. Monica Valentine (FASAB, Chair)
Dr. Brett Baker (At-Large)
Ms. Carol Johnson (OMB)*
Mr. Prasad Kotiswaran (CFOC)
Present: Ms. Patricia Layfield (CIGIE)
Mr. Elliot Lewis (CIGIE)
Mr. Walter Obando, for Mr. Kurt Hyde (CIGIE)
Mr. Joseph O'Neill (GAO)
Mr. Robert Smalskas (CFOC)
Mr. Brian Casto (Treasury)**

Staff

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

Apologies: Ms. Kim Laurance (CFOC)

*Absent on 8/13/20 from 3:00 PM until adjournment

**Absent on 8/12/20 from 1:00 PM until ~ 2:15 PM.

Welcome (Agenda Item #1)

The meeting began at 1:00 PM. Ms. Valentine welcomed everyone and thanked Mr. Perry and Ms. Dewhirst for their work in drafting the implementation guidance and collaborating with the task force.

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

Mr. Perry noted that SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, was 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.

Mr. Perry directed Committee members to tab A.1 of the [meeting materials](#). He noted that the software licenses project has been discontinued by the Board and will likely be scoped into the future intangibles/subscription-based IT arrangements (SBITA) project. Mr. Perry stated that the conforming amendments project is on hold and will likely also be addressed by the future intangibles/SBITA project. He mentioned that the Board will have an educational session on these two topics at the August Board meeting.

Mr. Perry noted a number of variables and key milestones affecting the implementation guidance project that may affect the timelines, but expressed optimism the exposure draft would be released for public comment in November. Mr. Perry stated that the goal for this meeting was to resolve the majority of the outstanding comments and present a final version of the Technical Release at the September AAPC meeting.

Mr. Perry stated that staff is hoping to be able to expose the implementation guidance and the omnibus amendments in November 2020. The 90-day comment period would then close in February 2021. Mr. Perry pointed out that the February 2021 AAPC meeting will likely need to be rescheduled to allow staff to analyze comment letters and prepare for discussion with the AAPC. Mr. Perry asked members to review their calendars and let him know their availability for an early March meeting.

Mr. Perry noted that staff would be presenting on leases for an AGA national webinar on August 19th. Staff is hopeful that this outreach will bring more awareness to the project and encourage agencies to engage in implementation planning.

Discuss Draft Implementation Guidance – Part 1 (Agenda Item #3)

Mr. Perry directed members to tab C of the meeting materials. Ms. Dewhirst noted that the uniformity and grammar checks will be completed prior to the September AAPC meeting.

Mr. Perry invited members to provide feedback and edits on draft questions in numerical order.¹ For paragraph numbers not listed below the members had no comments.

Paragraph 4: Mr. Perry noted that staff made the changes proposed by Mr. O'Neill and Ms. Valentine at the last meeting. The second part of the answer now reflects the applicability to inter-entity (intragovernmental) costing.

Paragraph 6: Committee members recommended considering the forthcoming land standard to ensure consistency between the documents. Staff agreed to review and consider this.

Paragraph 8: Mr. O'Neill questioned if "no exchange for consideration" is accurate in this example. He pointed out that there could be some kind of consideration given. Staff explained that the intent of the example was that no consideration was given for the use of the land; however, staff agreed to follow up with Mr. O'Neill after the meeting to improve the wording to make this clear.

Paragraph 10 and 11: Ms. Valentine pointed out an extra character that should have been deleted, and staff made the necessary correction.

Paragraph 11: Mr. Perry highlighted the edits made since the last meeting. Mr. O'Neill recommended that staff clarify the scope and applicability of Statement 38. It was necessary to make clarifying edits to distinguish between "accounting requirements," "disclosures" (i.e., notes), and required supplementary information (RSI).

Paragraph 12: Mr. Perry noted that staff will ensure that this paragraph aligns with the omnibus amendment to paragraph 5.a of SFFAS 54.

Paragraph 13: Mr. Perry explained that this paragraph on the definition of the term, "probable" was moved up to the scope and definitions section. Ms. Valentine and Mr. O'Neill concurred with that approach. Mr. O'Neill provided a suggestion to bring the content of the footnote up into the paragraph, and staff agreed to make that change. Mr. O'Neill also suggested simplifying the question. Staff agreed to edit the wording if possible.

¹Through 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 / notations to implement and track such feedback.

Paragraph 14: Mr. O'Neill noted that the reference should be to paragraph 54.e, not 54.b of SFFAS 54. Staff agreed and made the correction.

Paragraph 15: Mr. O'Neill suggested changing the wording to "right to occupancy" to indicate that the lease term begins when the lessee has the right to occupy the space. This is not necessarily the same as when they move in. Staff agreed with that suggestion. Mr. Smalskas suggested considering the term "beneficial occupancy" as well.

Paragraph 16 and 19: Mr. Perry noted that these paragraphs are pending an omnibus amendment to paragraph 19.a of SFFAS 54 and would likely need to be revised after the Board makes a decision on the omnibus.

Paragraph 21: Mr. Perry stated that this was a new question and answer proposed by GSA. It allows an agency to use a predominant factor in making probability assessments.

Paragraph 23: Mr. O'Neill provided a minor clarifying edit that was accepted.

Paragraph 24: Mr. Perry noted that this was a new question and answer. He further explained that it was added to address timing concerns for when reassessment of the lease term is required.

Paragraph 29: Mr. Perry stated that this paragraph is pending an omnibus amendment to paragraph 23 of SFFAS 54. Mr. O'Neill made a suggestion to modify the wording for clarity, and staff agreed to make the requested change. Mr. Smalskas recommended increasing the amounts in the example to be more material, and staff agreed.

Paragraph 31: Ms. Valentine suggested clarifying that the hospitals in this example are private hospitals. The members agreed, and staff made the requested edits.

Paragraph 32: Mr. Smalskas noted that a correction was needed to reverse the lessee/lessor references in the question. Mr. Perry agreed and made the necessary correction. Mr. Perry also noted that this paragraph is pending an omnibus amendment to paragraph 31 of SFFAS 54.

Paragraph 34: Mr. O'Neill and Mr. Smalskas proposed adding more detail about how to follow paragraph 32 of SFFAS 54. The members agreed that this additional description in the implementation guidance would be helpful.

Paragraph 35: Mr. Perry noted that this is pending an omnibus amendment to paragraph 37 of SFFAS 54.

Paragraph 36: Mr. Perry noted that this is pending an omnibus amendment to paragraph 38.a of SFFAS 54. Mr. O'Neill requested to make some edits to the wording offline.

Paragraph 42: Mr. O'Neill raised a concern about the term "payments" in the last sentence of the answer. Staff agreed to work with him offline to edit the wording as needed.

Paragraph 45 and 46: Mr. Perry noted that these paragraphs are pending an omnibus amendment to paragraph 42 of SFFAS 54. Staff agreed to revisit these questions with the Committee in September.

Discuss Draft Implementation Guidance – Part 2 (Agenda Item #4)

Paragraph 49: Mr. O'Neill agreed to discuss the specific wording of the last sentence offline with staff, but indicated that it may be appropriate to use the term "concepts" rather than "fundamentals"

in this instance. Mr. Perry noted that the term “fundamentals” could potentially be stricken from the sentence, but also indicated that the intent was to allude to the Preamble to the Concepts Statements, wherein the term “fundamentals” is defined.

Paragraph 50: The Committee noted that the answer was missing a word. Staff will make the correction, leveraging similar phrasing from elsewhere in the draft TR for uniformity.

Paragraph 52: The Committee discussed a potential omnibus candidate related to paragraph 54 of SFFAS 54, as referenced in the answer; however, no edits or comments were deemed necessary, irrespective of the outcome of the omnibus project.

Adjournment:

The Committee adjourned for the day at 4:05 PM.

Day 2

Administrative Items

The Committee agreed with staff’s proposal to hold a supplementary meeting on March 10 or March 11, 2021, for purposes of discussing comment letters on the Technical Release after the exposure period.

Illustrations

Mr. Perry raised a proposal for the Committee’s consideration to forgo the development of non-authoritative illustrations in the implementation guidance pronouncement. Mr. Perry and Ms. Dewhirst mentioned several reasons for the recommendation:

- a. The illustrations would ultimately be non-authoritative.
- b. Ms. Dewhirst emphasized that the preparer community is primarily interested in receiving the authoritative (level c on the GAAP hierarchy) question-and-answer implementation guidance as soon as practicable. The illustrations would be logistically challenging and time consuming to develop under the project timeline and likely result in delays to the release of the exposure draft for public comment.
- c. Mr. Perry noted that non-authoritative illustrations could be issued in a staff implementation guidance (level d on the GAAP hierarchy) at a later time.

The Committee agreed to exclude illustrations from the implementation guidance. Members encouraged the staff to follow up with the task force to determine whether or not to develop illustrations as part of staff implementation guidance. Staff agreed to do so, and explained that they would confer with the executive director on the best approach going forward.

Discuss Draft Implementation Guidance – Part 2 (Agenda Item #4) – continued

Paragraph 56: Mr. Casto suggested a broad question and answer to clarify the difference between a lease (intangible) asset and the underlying PP&E asset. Staff agreed that such a question and answer would be useful, and stated that they would present a proposal at the September meeting.

Paragraph 59: Minor clarifying edits were discussed and implemented during the meeting.

Paragraph 60: Staff noted that certain elements of the proposed questions and answer are subject to Board decisions on the leases omnibus project. Committee members agreed that, irrespective of the omnibus decision, it would be helpful to clarify the applicability of SFFAS 5 disclosure requirements for reasonably possible contingent liabilities in the scenario presented. Staff agreed, and will present a revised question and answer to the Committee in September.

Discuss Draft Implementation Guidance – Part 3 (Agenda Item #5)

Paragraphs 71-72: A member observed that clarifying edits were needed to the language, including edits to potentially clarify the timing of asset recognition. Staff agreed to reexamine the language and present any editorial changes to the Committee in September.

Paragraphs 73, 78, 80, 81: Minor clarifying edits were discussed and implemented during the meeting.

Discuss Draft Implementation Guidance – Part 4 (Agenda Item #6)

Paragraph 84: Multiple members suggested revising the wording of the questions to reduce ambiguity and enhance the clarity of the question and answer and the related calculation. Staff will present a revised question and answer to the Committee in September.

Paragraph 89: Mr. Perry provided some background on this paragraph as it is meant to address a particular nuance that the State Department brought to staff's attention. Mr. Smalskas asked if the State Department is assigning the lease or just the rights to the lease, meaning that the obligation for the lease stays with the State Department. He emphasized the importance of somehow integrating clarifying edits with respect to whether or not question and answer is alluding to the assignment of a lease, because assignments of leases have a specific meaning. Staff agreed that this clarification is necessary and will present any modified wording to the Committee in September.

Paragraph 90: Mr. O'Neill noted that he would like to provide some edits to improve the wording and would do so offline.

Paragraph 92: Mr. O'Neill observed that intragovernmental sale-leaseback transactions may not meet the criteria to qualify as a sale under paragraph 89 of SFFAS 54. Ms. Valentine agreed that the definition of a sale should be verified in SFFAS 54. Staff will research the issue and revise the question and answer, as appropriate. Staff will present a revised question and answer to the Committee in September.

Paragraph 95: Mr. O'Neill asked if this could be a purchase of a building in substance. Ms. Dewhirst noted that the agreement would not necessarily end in a purchase, but rather there are several different possibilities.

Paragraph 99: Technical and clarifying edits were discussed and implemented during the meeting.

Paragraph 100: Committee members suggested aligning the paragraph with the effective date of SFFAS 54. Staff agreed that this would be the logical approach, but asked Ms. Valentine if such a change would be in alignment with the conventional effective date paragraphs for Technical Releases. Ms. Valentine recalled that most Technical Releases are issued after implementation of the related Statements, and agreed that aligning the effective date with SFFAS 54 would be correct.

Discuss Next Steps (Agenda Item #7)

Mr. Perry summarized next steps as follows:

- Staff will make the edits requested during this meeting and work with individual members as needed to finalize the implementation guidance.
- At the September AAPC meeting, staff will present for discussion all questions/answers that have been significantly revised.
- Staff will draft the questions for respondents and basis for conclusion sections for discussion at the September meeting.

Mr. Perry stated that the goal of the September meeting will be to finalize any outstanding edits and then take a vote to expose the technical release.

Adjournment

Ms. Valentine and Mr. Perry thanked the Committee for a productive meeting and their insightful feedback.

The meeting adjourned for the day at 3:35 PM.