

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

March 11, 2021, 9:00 AM ET  
WebEx and Conference Call

### Attendance

#### Members

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

#### Staff

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

Apologies: Mr. Kurt Hyde (CIGIE)  
Ms. Kim Laurance (CFOC)

Ms. Lisa Motley (General Counsel)

### Welcome (Agenda Item #1)

The meeting began at 9:00 AM. Ms. Valentine welcomed everyone, including Mr. Troy Meyer. Mr. Meyer joins the AAPC (or “the Committee”) as one of the representatives of the inspector general (IG) community appointed by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). He replaces Mr. Lewis, who retired from federal service in December 2020.

Ms. Valentine also noted that this will be Ms. Layfield’s final meeting as an AAPC member before retirement from federal service. Ms. Valentine, the committee, and staff congratulated Ms. Layfield and expressed appreciation for her dedication, insightful perspectives, and input during her time on the Committee. Ms. Layfield’s replacement will be introduced at the May meeting. (*Staff note: At the time of the meeting, the selection and appointment of Ms. Layfield’s replacement by CIGIE’s Audit Committee Chair was still pending*)

### Updates on Recent Task Force, Board Developments, Project Status (Agenda Items #2 and 7)

Ms. Dewhirst directed Committee members to review the project plan under tab A of the [meeting materials](#). Ms. Dewhirst reminded the committee that the exposure period began in the first quarter of fiscal year 2021 and continues until the beginning of the second quarter. Staff’s intent is to resolve issues identified by commenters in an efficient and responsive manner, with a goal of issuing the final technical guidance and omnibus pronouncements in the fourth quarter of fiscal year 2021.

Ms. Johnson asked for staff to explain the purpose of displaying a second research phase for both the leases implementation and leases omnibus projects on the project plan timeline.

Ms. Dewhirst confirmed Ms. Johnson’s expectation, noting that staff anticipates that a majority of implementation issues and omnibus candidates have been identified and accounted for in the project plan. It is not necessarily expected that there will be new implementation issues sufficient to require a second round of omnibus changes and/or implementation guidance. Nevertheless, she explained that as the implementation date approaches for SFFAS 54, *Leases*, new implementation issues and

targeted improvements may come to light. Staff will be monitoring those with the help of the task force and take up projects that warrant the Committee's attention, if appropriate.

Mr. O'Neill thanked staff for their work and expressed appreciation that the project continues to move at a healthy pace. However, Mr. O'Neill also expressed reservations that, given the variety of issues and stakeholder groups, the project plan timelines seemed a bit optimistic.

Mr. Perry concurred with Mr. O'Neill's sentiment. He noted that staff will be revisiting the timeline following the April Board meeting. It is possible to have a goal of *finalizing and voting out* (emphasis added) both pronouncements by the end of the fourth quarter. Ms. Dewhirst added that it would largely depend on the results of today's Committee meeting, along with the April Board meeting. Mr. Perry and Ms. Dewhirst agreed that, given the 90-day sponsor review period (which follows the Board's vote on the omnibus SFFAS under development), it is unlikely that the two pronouncements would be *issued* (emphasis added) in the fourth quarter. Mr. Perry indicated that the first quarter of fiscal year 2022 is a more realistic goal for issuance. Staff continues to keep the project plan timelines up-to-date, and will provide another project plan for the May Committee meeting, including any revisions that may be needed.

### **Discussion of comments on ED and staff proposals (Agenda Items #3-6)**

Ms. Dewhirst directed members to tabs B-D of the meeting materials. She summarized staff's approach for reviewing the comment letters as follows:

Ms. Dewhirst and Mr. Perry independently reviewed each comment letter in detail and made assessments of each point with which they either (a) agreed or partially agreed and for which determined an action could be taken on, (b) agreed but determined that action may not be necessary at this time (for various reasons), or (c) disagreed (for various reasons) and determined that action was not advisable. After independently reviewing (coding) these comment letters in detail, staff met to come to unanimous agreement on their assessments (coding) and what recommendations to bring to the Committee. These recommended actions are summarized in Tab C, and the related edits are reflected in Tab B. Any action items related to the omnibus are in Tab D.

Ms. Dewhirst then explained that the objective of this meeting would be to first walk the Committee through the tentative staff revisions resulting from the comment letters and to obtain committee feedback. Staff would also obtain feedback on recommendations for the Committee on omnibus revisions developed by staff. Lastly, staff would obtain any remaining feedback the Committee based on comment letters not previously discussed or reflected in the analysis.

Tab B par. 4 – moved to par. 12 (see below).

Tab B par. 5 – Ms. Valentine and Mr. Smalskas expressed slight reservations with use of the phrase "interests in land" and requested that staff explain their decision to use that phrase. Ms. Dewhirst explained, and Mr. Perry verified, that the phrase is used in SFFAS 6 (par. 18, footnote 18) when defining land rights. Although staff often uses the terms "land rights," "easements," or "rights of way" the term is further defined in footnote 18 as more broadly encompassing "other like interests in land." Staff elected to use varied phrasing to avoid redundancy in the Q&A narrative and to highlight the many types of interests in land that may meet the definition of land rights. After this clarification, the Committee was in general agreement that use of the phrase was appropriate in this context for the purposes described.

Tab B par. 8 – Ms. Dewhirst pointed out a few minor, clarifying edits recommended by commenters, which staff had implemented. Ms. Dewhirst noted that the original phrasing implied that the reporting entity may have arguably had the right of first refusal and, therefore, control over access to the economic benefits. This was not the original intent, so staff removed that component of the scenario.

Tab B par. 10 – Ms. Dewhirst explained that staff elected to address an observation made by a commenter related to lease modifications by adding a second paragraph to the answer.

Tab B par. 12 (original) – Ms. Dewhirst noted that the Department of Interior raised numerous concerns, many of which staff found to be valid, regarding the question and answer. As a result, staff believes that deleting the question and answer is the best approach. She noted that the task force agreed with removing the question as well.

Mr. O’Neill concurred with deleting the question, and noted that there is likely a need to confer with the Board on leases implementation issues that may arise in the oil and gas leases. He expressed some concern that the Board may need to reconsider certain issues in this area.

Mr. Smalskas inquired about whether or not removing the question and answer may open the door to another potential project in the future.

Ms. Valentine observed that, given Interior’s position and the resulting staff concerns about keeping the question and answer in the proposal—coupled with the task force’s concurrence with removing it—it seemed appropriate to remove the question and answer. She agreed that there is always the possibility of additional work in this area, and those can be considered alongside other competing priorities.

Mr. Perry stated that oil and gas accounting and reporting issues are reasonably likely to arise in the near future, but those issues—as Mr. O’Neill indicated—would likely be best handled through level-A or level-B guidance anyhow (rather than through a level-C Technical Release).

Members agreed to strike the question.

Tab B par. 12 (inserted, originally par. 4) – Ms. Dewhirst noted that staff received several comments on this question (given the specific matter for comment, which specifically called out and requested feedback from respondents on the question). In general, commenters supported the proposed guidance but expressed varying opinions regarding the level of specificity and explanations that would provide sufficient clarity.

Mr. O’Neill pointed out that GAO had several concerns, primarily related to intragovernmental issues and cost accounting nuances related to SFFAS 4 and SFFAS 55, identified in their comment letter. He also expressed that he anticipates the type of scenarios in this paragraph are rare.

Mr. Smalskas expressed concerns with memorializing too many specific details in the guidance for complicated questions, including the question being discussed.

Ms. Dewhirst indicated full agreement with these concerns, but expressed concern with removing the question and answer. She noted that removing the guidance altogether for areas where guidance would be particularly helpful may also be counterproductive.

Mses. Layfield and Valentine suggested keeping the question and answer and simplifying the guidance may be helpful and responsive to both concerns.

Mr. Meyer observed that something is being lost in the way the current guidance is presented, and agreed that simplifying the question and answer would be helpful. He suggested removing the amounts.

Mr. O’Neill expressed continued reservation. He stated that GAO does not believe the question and answer on this topic will be particularly helpful. However, he noted that he was open to seeing how staff might be able to re-frame and simplify the guidance.

Ms. Dewhirst and Mr. Perry agreed to simplify the guidance, remove the numbers, and bring it back to the Committee at the May meeting for discussion. If, at that point, a majority of the Committee remains hesitant or concerned with the guidance, it can be removed.

Tab B par. 14 – Ms. Johnson expressed curiosity as to whether or not question 14 was needed. Ms. Dewhirst clarified that one commenter requested clarity on this particular topic. Ms. Johnson was agreeable to leaving the question in the guidance, but also noted that she may provide clarifying edits to improve the wording. Ms. Dewhirst and Ms. Johnson agreed to work offline and present any clarifying improvements at the May meeting.

Tab B par. 15 – Members briefly discussed other accounting and financial reporting issues that may arise surrounding in-kind consideration. In response, Mr. Perry cautioned that the purpose of the question is simply to confirm that consideration can be non-monetary, such as in-kind services, rather than to opine on other specifics that would unfold as a result.

Tab B par. 19 – Ms. Dewhirst directed members' attention to the new question, which staff developed and provided to the task force in response to feedback provided in another comment letter.

After some discussion and review of SFFAS 29, the committee confirmed that heritage assets and stewardship land are a type of PP&E. Mr. O'Neill observed that the inclusion of heritage assets and stewardship land in the definition of PP&E is not abundantly clear when reviewing SFFAS 6 in isolation, although SFFAS 29 does provide clarity. Staff agreed to examine that issue offline. (*Staff note: See SFFAS 6 par. 17-18 and SFFAS 29 par. 15*)

Tab B par. 24 – Ms. Dewhirst recapped previous task force, AAPC, and Board discussions surrounding paragraph 19.a of SFFAS 54, and noted that a few comment letters continued to express concerns about cancellable periods. Staff will bring these concerns to the Board for reconsideration. The Committee did not have any additional comments.

Tab B par. 26 – Ms. Dewhirst summarized improvements to the wording of the question and answer for clarity, as suggested by a commenter.

Tab B par. 27 – Ms. Dewhirst pointed out a minor technical correction by a commenter with regard to the paragraph reference provided (to cite a specific paragraph rather than a range of paragraphs), which staff had agreed with and implemented.

Tab B par. 29 – Ms. Dewhirst pointed out two minor clarifying edits suggested by a commenter, which staff had agreed with and implemented.

Tab B par. 30 – Ms. Dewhirst recapped task force discussions on the proposed question and answer. In response to a question from Ms. Johnson, staff explained that the two-year (or 24-month) short-term lease practical expedient was set by the Board in order to align the balance sheet recognition criteria with that of general PP&E (SFFAS 6 par. 17). Staff also noted that the practical expedient for SFFAS 54 is comparatively greater than that of the GASB, which has a one-year (or 12-month) short-term lease practical expedient.

Staff also explained that materiality guidance may be appropriate to consider from time to time in these types of situations, the intent of the implementation guidance is to discuss the requirements of SFFAS 54. Mr. Perry noted that staff specifically chose to write the scenario with a reassessed lease term having an additional 12 months (36 months in total) rather than an additional one month, for example (25 months in total), to avoid the implication that materiality guidance would never be considered when lease term reassessments result in a change from short-term leases to leases greater than 24 months.

Tab B par. 36 – Ms. Dewhirst reviewed a minor edit with the Board and directed members to Tab D of the briefing materials. This question and answer will be revised if the Board agrees with staff’s omnibus proposal at the April Board meeting.

Tab D par. 9-10 – Ms. Dewhirst summarized staff’s omnibus proposal to eliminate the requirement to straight-line lease incentives and lease concessions for short-term leases. Ms. Dewhirst noted that staff’s observation is that it may not be cost-beneficial to straight-line these, while the majority of these leases are otherwise not recognized on the balance sheet.

The AAPC supported bringing the omnibus proposal to the Board for its consideration.

Tab D par. 14-15 – Ms. Dewhirst then directed Board members to the intragovernmental leases omnibus proposals, which were also revised in response to comment letters and task force feedback. Staff noted that straight-lining the entries for intragovernmental lease incentives and lease concessions may not be cost-beneficial. For example, distinguishing between lease concessions and rent decreases may prove challenging. Additionally, lease incentives—which are often received by GSA in carrying out its responsibilities—are typically passed along to customer agencies automatically and, therefore, not really an “enticement” for those sublessees to sign (as they would sign regardless). This raises a definitional concern with paragraphs 9-10 of SFFAS 54. There are also a number of ongoing intragovernmental differences between GSA and its customers that have persistently lingered under existing standards, which would likely continue. This omnibus proposal would help to reduce those. Ms. Dewhirst observed that including intragovernmental lease incentives and concessions on the balance sheet seemed arbitrary, since the remainder of the leases are off-balance sheet under the current SFFAS 54 structure.

Ms. Valentine agreed with bringing the omnibus proposal to the Board, but cautioned against using intragovernmental differences as a basis for the proposal. She indicated that the theoretical arguments were sound. Making the Board aware of the intragovernmental differences would be appropriate, but such differences should not drive Board decisions on accounting requirements.

Staff polled the AAPC regarding their level of support for the two aforementioned sets of omnibus proposals presented in Tab D par. 9-10 and par. 14-15, respectively:

Committee Member	Tab D par. 9-10 (short-term) Omnibus Proposals	Tab D par. 14-15 (intragov) Omnibus Proposals
• Dr. Baker:	In favor	Abstained
• Mr. Casto:	In favor	In favor
• Ms. Johnson:	In favor	In favor
• Mr. Kotiswaran	In favor	In favor
• Ms. Layfield	In favor	In favor
• Mr. Meyer	In favor	In favor
• Mr. O’Neill	Abstained	Abstained
• Mr. Smalskas	In favor	In favor

Staff will report the Committee and task force’s support for these at the April meeting for the Board’s consideration.

Ms. Dewhirst directed members back to the remainder of the implementation guidance proposals.

Tab B par. 55 – Members had no comments on the minor clarifying amendments proposed by staff.

Tab B par. 58 – Ms. Dewhirst summarized a minor correction to the question and answer for clarity, as suggested by a commenter. She noted that the stricken text was not particularly relevant to the question or the answer.

Tab B par. 64 – Ms. Dewhirst explained that the inclusion of paragraph 44.b in the answer was not necessary, and therefore deleted, in response to a comment letter received. Mr. O’Neill noted a minor grammatical error correction that was also needed, which staff will implement.

Tab B par. 65 – Ms. Dewhirst summarized clarifying edits that were made to avoid the implication that the answer was discussing definitional criteria rather than providing examples.

Tab B par. 77 – Ms. Dewhirst discussed the numerous minor amendments implemented in the paragraph for clarity.

Tab B par. 78 – Ms. Dewhirst discussed feedback from comment letters, which raised concerns that the proposed guidance would create additional administrative burdens. This was not the intent of the proposal, she explained. Accordingly, staff struck language in the answer that implied that consultations with local real estate professionals was necessary and that such data could be obtainable in the first place.

Tab B stricken par. between par. 86 and 87 – Ms. Dewhirst directed members’ attention to a question and answer stricken based on feedback received from commenters and the task force. She noted that bits and pieces of paragraphs 80-86 of SFFAS 54 can apply to short-term and intragovernmental leases, and that the guidance provided in these paragraphs can be taken into consideration under certain situations.

Mr. O’Neill advised staff to raise this issue to the Board, to ensure that the implementation guidance is consistent with the Board’s intent. He expressed concerns that the Board may have intended these paragraphs to apply only to lease assets.

Staff explained that keeping the question and answer would require extensive analysis and narrative that may not be practical to re-write at this stage. Staff views the originally-proposed answer as being overly-simplistic and erroneous. Members agreed to strike the paragraph, and to go back to the Board to obtain clarification if determined necessary.

The Committee recessed for lunch at 12:00 PM for one hour.

### **Discussion of comments on ED and staff proposals (Agenda Items #3-6) – Continued**

Tab B par. 94 – Ms. Dewhirst explained that introducing rent concessions in the question introduced unnecessary complexities identified by respondents that were, in staff’s view, inconsequential to the primary purpose of the guidance. Staff, therefore, recommended striking that piece of the question. The Committee agreed.

Tab B par. 95 – Staff discussed numerous comment letters received that identified potential improvements and additional guidance needed in the area of sale-leasebacks.

Staff presented an exposure draft from the International Public Sector Accounting Standards Board (IPSASB) [ED 75] and asked if members found the IPSASB-proposed guidance (or elements thereof) to be more specific, cogent, and/or helpful.

Ms. Valentine agreed that exploring the IPSASB approach may be helpful, but that the Committee will need to see the proposed edits in order to be able to provide guidance and direction on whether or not improvements can be integrated into the guidance and/or the omnibus proposal. Staff tabled

the sale-leaseback topic for now, and will revisit the matter with the Committee at the May meeting after additional analysis and consultations with the Executive Director.

Tab B par. 96-99 – Ms. Dewhirst pointed out that these paragraphs would need to be modified if the lease-leaseback omnibus proposal are accepted by the Board. Staff will revisit these paragraphs with the Committee at the May meeting based on the results of the April Board meeting.

Tab D par. 29 – Ms. Dewhirst explained staff’s recommendation to account for lease-leasebacks separately. Respondents to the exposure draft and outreach with stakeholders have provided evidence to staff that the requirement to net the transactions while disclosing them separately would likely make implementing the requirements more complicated and burdensome. Staff agrees with the concerns identified during outreach with stakeholders and will recommend the omnibus proposal to the Board.

Tab B header for par. 100-102 – Ms. Dewhirst explained the clarifying amendment to the header. Some respondents appeared to be confused as to the scope and applicability of the guidance under this section. The clarifying amendments to the header should prevent such confusion.

Tab par. 100 – Staff explained that additional guidance was added to help users implement the requirements of paragraphs 96-97 of SFFAS 54 correctly.

Mr. O’Neill expressed concerns that paragraph 96.b of SFFAS 54 could be interpreted by many to mean that the lease liability and lease asset balance should be the same at the date of implementation.

Staff viewed the matter as something that the Board was silent on in SFFAS 54 and can, therefore, be addressed with implementation guidance.

Ms. Valentine instructed staff to return to the Board to obtain clarification and direction on this topic. Staff will revisit this topic at the May meeting.

Tab B par. 101 (original) – Ms. Dewhirst explained that the guidance provided for in this question was troublesome to many respondents. Moreover, the guidance was not complete and correct. After some effort to make clarifying amendments and technical corrections to the guidance, staff ultimately determined that the guidance was not necessary (particularly in light of similar guidance provided in par. 100). Members agreed to strike the paragraph.

Tab B par. 101 (inserted) – Ms. Dewhirst explained that this guidance was added in response to feedback from respondents regarding the need for guidance on unamortized lease incentives and lease concessions at the date of implementation. Ms. Valentine requested that staff add some additional clarifying guidance to the proposed guidance based on discussions. Staff agreed, and will present revised guidance for the Committee’s consideration during the May meeting.

Tab D par. 4 and 8 – Mr. Perry explained that the omnibus proposal, which is based on a comment letter, is intended to clarify the intended delineation between short-term leases guidance and intragovernmental leases. Staff agreed with the comment letter, as did the task force.

Tab D par. 5 and 27 – Mr. Perry and Ms. Dewhirst explained the omnibus proposals in response to comment letters and task force feedback. These edits will help better distinguish what staff anticipates to be the intended structure of the definition of lease concession (the first sentence of the paragraph) and examples of lease concessions (the second sentence of the paragraph). Staff also proposes striking commission credits, because commission credits are not an enticement to sign a lease.

Staff noted that task force members had initially indicated some concerns with such an omnibus proposal, because the remainder of SFFAS 54 does not specify how to account for such credits. However, staff believes the remainder of the revised omnibus proposals will provide sufficient clarity.

Tab D par. 11, 34-35 – Staff indicated that these omnibus proposals would resolve dead-end references to SFFAS 5 and SFFAS 6 currently in SFFAS 54 for accounting for contracts or agreements that transfer ownership, which need to be resolved.

- Par. 11 would amend par. 25 of SFFAS 54, by referencing paragraph 26A of SFFAS 6 for contracts and agreements that transfer ownership.
- Par. 26A of SFFAS 6 would clarify the measurement basis for PP&E lease contracts and agreements that transfer ownership.
- Par. 42A-C, which would also be cited in par. 25 of SFFAS 54 (*Staff note: Citation will be added in a subsequent version of the omnibus*), would clarify the measurement basis for liabilities for PP&E lease contracts and agreements that transfer ownership. Staff has not yet finalized these omnibus proposals due to time constraints. The proposals will be finalized before the April Board meeting, and staff will report back the results to the Committee.

Tab D par. 24 – Mr. Perry explained that this omnibus proposal is primarily a matter of terminology preference. Staff's intent, in proposing a change from "deferred revenue" to "unearned revenue," is to simply use terminology that may be more widely understood by general users; especially when considering that entities with significant lease portfolios, such as GSA, may present "deferred revenue" or "unearned revenue" as a separate line item on their balance sheets. Staff will ask the Board to consider this issue. Mr. Perry indicated that staff does not have a strong preference.

Mr. Casto noted there appeared to be no formal definitions of either term within authoritative guidance. He encouraged staff to check elsewhere in the FASAB Handbook to ensure that any proposed changes do not result in unintended conflicts or inconsistencies.

Ms. Valentine also agreed that consistency within the Handbook would be helpful.

Tab D par. 28 – Mr. Perry briefly pointed out that this would be a conforming edit to another paragraph in SFFAS 54 as a result of the short-term lease omnibus candidates discussed earlier.

Staff proceeded to open up the discussion to other issues identified by the AAPC in reviewing comment letters and staff's proposed actions in response thereto.

Ms. Layfield asked about providing additional guidance on interest rates, and perhaps to aligning such guidance with OMB Circular A-94.

Mr. Perry expressed agreement with the comment, but cautioned that staff cannot reference the OMB guidance in the implementation guidance. Staff continues to develop omnibus candidates for the Board to simplify interest rate guidance. These proposals will be presented to the Board for its consideration in April. Unfortunately, due to time constraints, staff was unable to finalize omnibus proposals and include them in the materials for the March meeting. Many reporting entities have expressed significant concerns regarding undue burdens and costs resulting from calculating implicit interest rates and implementing the interest rate requirements of SFFAS 54 in general. Staff will return to the Committee in May with additional changes that may result from the Board's decisions on this topic.

Committee members did not have additional comments. Members thanked staff for the comprehensive materials and draft guidance.

### **Next Steps (Agenda Item #8)**

In response to a few questions from Ms. Valentine, staff reminded the Committee that the omnibus proposal will undergo a 45-day congressional review in concurrence with the 90-day sponsor review when the time comes. Mr. Perry stated that, as of right now, staff does not foresee a need to re-expose the implementation guidance or the omnibus proposals. Staff will keep the Committee and General Counsel apprised of the project plan and status if any additional issues that may arise.

Ms. Valentine, Mr. Perry, and the Committee thanked Ms. Dewhirst for her exceptional work, dedication, time, and expertise on the leases project. Her fellowship with FASAB will end on April 30. Mr. Perry noted that the incredible quality and progress made on the project in a short time period (about 16 months) could not have happened without Ms. Dewhirst. Mr. Perry and Ms. Dewhirst will continue to collaborate and provide trainings to the federal community from time to time, however.

### **Adjournment**

Staff thanked the Committee for a productive meeting and their insightful feedback.

The meeting adjourned at 3:07 PM.