



May 4, 2021

Memorandum

To: Members of the AAPC
From: Ricky A. Perry, Jr., Senior Analyst
Subject: Summary of Leases TR updates

BACKGROUND

At the March AAPC meeting, staff reached agreement with the AAPC with respect to a majority of outstanding issues in the draft technical release on leases implementation guidance. A few outstanding issues remain, including a few issues that were contingent upon Board decisions. At the April FASAB meeting, the Board provided feedback and decisions related to all staff recommendations on the omnibus proposal (Attachment B).

As a result, staff anticipates being able to finalize the draft technical release (Attachment C) at the May AAPC meeting. The below list summarizes the tracked changes to the draft Technical Release (TR) the rationale behind those changes.

SUMMARY OF FINALIZING UPDATES TO ATTACHMENT C:

- 1. Paragraph 12:** Staff continues to receive comments from GAO stating concerns with this paragraph. Staff recommends keeping the paragraph as written.

At the April Board meeting, Mr. Dacey posed that the Board may not have been aware that the scope and applicability of paragraphs 8-9 and 108-113A could affect intragovernmental lease accounting. Staff disagrees. The Board would have had a general awareness of the operating environments of agencies and the nature of inter-entity transactions that they enter into with respect to leases when approving SFFAS 55. The Board discussed intragovernmental leases and the related transactions during deliberations for SFFAS 54.

The Board agreed that inter-entity costs must be imputed for those reporting entities conducting business-type activities because the information is tied to rates. The Board concluded that the benefits clearly exceeded the costs for reporting entities that had not previously implemented inter-entity cost requirements as well. The Board considered the cost benefits and operating environments of reporting entities in making that decision. The Board decided to limit burden placed on agencies by only requiring the reporting of inter-entity costs to business-type activities (see SFFAS 55 Basis for Conclusions, par. A12, A15).

Given the purpose and uses of TRs under the Board's Rules of Procedure, staff recommends keeping paragraph 12 exactly as written through a Committee vote. The guidance provided simply instructs agencies to make a determination regarding the potential applicability of SFFAS 55 for intragovernmental leases when inter-entity costs are under-reimbursed. This guidance will prove useful to agencies. In order for this requirement to not be applicable, the Board would need to reexamine SFFAS 55 and create an exception, which is not something that staff recommends or has evidence to support. Staff has not received concerns from any other parties or stakeholders with respect to the guidance provided in this paragraph.

2. **Paragraph 36:** The Board approved omnibus proposals to simplify recognition of lease expenses for intragovernmental and short-term leases (see Attachment B par. 9-10, 14-15). As a result, staff modified paragraph 36 for short-term leases and struck guidance pertaining to the previous requirements on intragovernmental leases. The AAPC agreed to this approach at the March meeting.
3. **Paragraphs [following 50], 67, 78:** The Board agreed to simplify interest rate requirements and remove the presumptive requirement to calculate implicit interest rates when such rates are not stated (see Attachment B par. 19, 24). As a result, these paragraphs were modified to align with such changes.
4. **Paragraphs 69-70, 75, 87, 89, 92, 95:** In response to staff's research, the Board agreed to change the term "deferred revenue" to "unearned revenue" (see Attachment B par. 25). As a result, these paragraphs were modified to align with such changes.
5. **Paragraph 94:** Staff is open to deleting or further modifying this question-and-answer in response to concerns previously expressed by Mr. O'Neill, but staff recommends one final discussion before doing so.
6. **Paragraph 95:** An additional conforming amendment was added to this paragraph as a result of a clarifying edit agreed to by the Board at its April meeting. Staff also merged two related questions into one to make the guidance more understandable.
7. **Paragraph 98:** Staff proposed a question to the Committee for discussion related to the changes to this paragraph made as a result of the March AAPC meeting (and Mr. O'Neill's recommended improvements / corrections) and the April Board meeting, which confirmed the correctness of those changes.
8. **Paragraph 99:** Staff made additional clarifying edits in response to the March AAPC meeting.
9. **Paragraphs 101-103:** Staff recommends merging the conforming amendments to existing TRs into this TR to help streamline the collective due processes and administrative of these projects.

Paragraph 101: These conforming amendments align with omnibus changes agreed to by the Board (see Attachment B par. 24).

Paragraphs 102-103: Staff has performed extensive research exploring the potential for making amendments rather than rescissions to TR 16. On the software licenses project, staff determined that Board action is needed under the Rules of Procedure for purposes of providing guidance. Given the limitations and due process rules which preclude the AAPC from creating new requirements, these paragraphs must be rescinded.

Staff note: Staff welcomes additional questions and can provide additional details at the Committee meeting on May 6 as it relates to TR 16 conforming amendments and the approach being proposed.

NEXT STEPS:

The Committee will vote on releasing the recommended TR to the Board for its review at the May AAPC meeting. There will be an opportunity for additional minor edits immediately following the meeting and staff will distribute official electronic ballots, along with a final draft, soon after the meeting.

