

Memorandum

Leases

August 17, 2021

To: Members of the Board
From: Ricky A. Perry, Jr., Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Leases post-issuance activities: next steps** (Topic H)

INTRODUCTION

The briefing material includes staff's analysis of outstanding leases implementation issues identified during the leases implementation and leases omnibus projects.

REQUEST FOR FEEDBACK

This topic does not include any questions for the Board or requests for member feedback. Leases will not be on the Board's discussion agenda for August. Members may provide input and submit follow-up questions regarding the leases post-issuance project at any time.

NEXT STEPS

Staff will provide an additional status update to the Board in October. At that time, the Board may wish to discuss and provide input in response to any forthcoming staff recommendations surrounding next steps, approaches, and priorities.

ATTACHMENTS

1. Staff analysis
2. Project plan

REFERENCE MATERIAL

1. [Rules of Procedure](#)

Staff Analysis

Leases

August 17, 2021

CONTEXT

The Board approved the omnibus SFFAS and implementation guidance TR proposals after the June meeting with an intention of addressing the remaining guidance candidates and implementation issues through other pronouncements. The omnibus SFFAS and implementation guidance TR are expected to be issued in early November following the 90-day sponsor review period.

Under the Rules of Procedure—which summarize the purposes, uses, and due process for each type of pronouncement—remaining guidance candidates summarized in this memo did not possess the necessary attributes to be addressed through the two recently-completed projects. Some require additional clarification from the Board through an Interpretation. Other more straight-forward candidates and requests for illustrations lend themselves to being handled through Staff Implementation Guidance, but do not necessarily require any Board actions. Staff aims to address the remaining candidates in the next phase of the leases post-issuance project.

Given the volume, breadth, and complexity of lease activities across the federal government, staff fully expected to address a considerable number of implementation issues through these post-issuance projects. Implementation issues surrounding complex accounting standards are more effectively resolved through a multi-phased approach whereby implementation guidance, amendments, and clarifications are developed and issued after the original pronouncement. It would be impracticable for the Board, technical staff, task force members, and exposure draft respondents to simultaneously develop leases accounting standards while also providing insightful input and analyses to responsively address the gamut of complex implementation issues that may result from those proposed standards.

SUMMARY OF ANALYSIS

Remaining guidance candidates fall under three types of pronouncements:

1. Interpretation of Federal Financial Accounting Standards candidates.¹
2. Staff Implementation Guidance (SIG) candidates.²
3. Subsequent omnibus candidates.³

¹Level-A GAAP under SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles*, par. 5.

²Level-D GAAP.

³Level-A GAAP. Omnibus candidates also may, depending on circumstances, necessitate concurrent updates to the forthcoming Technical Release (level-C GAAP).

ANALYSIS

Interpretation Candidates

1A. *Interpreting paragraphs 42 and 59 of Statement 54, as amended*

Staff and members of the task force members remain concerned regarding the level of effort to implement these paragraphs. As a result of these concerns, the Board provided omnibus amendments to these paragraphs to clarify that incremental borrowing rates can be used when an interest rate is not stated in the lease. While these omnibus amendments will be helpful, additional interpretive guidance can help ensure federal reporting entities select interest rates correctly, consistently, and efficiently.

Staff will work with the task force to develop an interpretation candidate for Board consideration at a future meeting.

1B. *Leasehold improvements accounting and reimbursable work authorizations (RWAs)*

Staff has received numerous technical inquiries regarding lease improvements and RWAs based on a variety of highly complex accounting scenarios. Staff continues to research and analyze the nature and extent of implementation issues and potential approaches for addressing them.

Staff will work with the task force to receive feedback on potential approaches for addressing these. Staff also intends to work with key contacts on the task force to schedule walkthroughs of leasehold improvements and RWA accounting policies with a number of federal reporting entities (GSA, DOS, and SSA) to better understand some of the complexities surrounding these transactions and differences in approaches that often lead to intragovernmental differences.

Staff will work with the task force to develop interpretation candidates for Board consideration at a future meeting.

SIG Candidates

2A. *Requests for illustrations*

Staff has received requests from stakeholders on the task force to provide illustrations of initial and subsequent measurement guidance provided in Statement 54. However, the Board does not typically provide authoritative illustrations in its pronouncements.

2B. *Clarifying and reiterating the scope and applicability of certain SFFAS 54 topic areas paragraphs (70-93) to short-term, intragovernmental, and/or lease assets*

The Board agreed at the June meeting that clarification to preparers on this matter would be helpful and potentially appropriate for inclusion under a SIG.

Staff views on a potential SIG project

In staff's view, (a) the measurement guidance in Statement 54 is sufficiently clear and (b) in areas where it is not clear, the Board is addressing it through the forthcoming omnibus SFFAS and TR and the interpretations under research. Accordingly, staff does not view SIG as a priority effort. At the same time, however, staff recognizes that SIG candidates can provide considerable assistance to preparers implementing Statement 54.

Accordingly, staff intends to develop proposed SIG questions and answers (similar to the TR format) that can be coupled with non-authoritative illustrations provided in an appendix. The answers would cite the relevant Statement 54 guidance and cross-reference to the related non-authoritative illustration in the appendix.

Given the highly complex nature of the interpretation candidates and the high volume of training, outreach, and technical inquiries expected over the next few years leading up to implementation, staff intends to devote any remaining time and resources that become available to drafting SIG question/answer/illustration candidates. After drafting these, staff will work with the executive director and chair to determine whether or not to proceed with further development.

The Board's Rules of Procedure and staff policy manual provide for a streamlined SIG due process. The minimum comment period is only 15 days. Staff is mindful of respondent burden, however, and—should the executive director and chairman elect to pursue a SIG—staff would likely propose a 90-day comment period and a joint ED; similar to the approach taken on the previous joint ED on leases.

Staff welcomes feedback on these potential approaches, and the Board will be invited to share their feedback at a future Board meeting.

Subsequent omnibus amendment candidates**3A.** Paragraphs 89-92 (and footnote 11) of Statement 54

At the June meeting, the Board agreed to take subsequent omnibus action to clarify the applicability of paragraphs 89-92 to intragovernmental leases. These paragraphs do not currently reflect an original Board intent to subject intragovernmental leases to the requirements of these paragraphs.

Other candidates

Staff may identify other omnibus, implementation guidance, interpretation, and SIG candidates as time progresses and reporting entities continue preparing to implement Statement 54. The above-listed candidates are not intended to reflect a complete list nor are they intended to represent the Board's ultimate decisions regarding the appropriate approaches under the rules of procedure. These approaches may change based on a range of factors, including Board input, as research and development continues this fall.

Project Plan

	<u>Deferral</u> SFFAS 58	<u>Implementation</u> <u>Guidance</u> TR 20	<u>Omnibus</u> SFFAS 60 SFFAS TBD	<u>SIG</u>	<u>Interpretations</u>	<u>Conforming</u> <u>Amendments To</u> <u>Existing TRs</u>	<u>Training / Outreach</u>
FY 2020 Q1	Draft Exposure-Period	Draft	Research				Draft FY 20 content
FY 2020 Q2	Exposure-Period	Draft	Research				Provide
FY 2020 Q3	Finalize Issuance ISSUED	Draft	Draft				Provide
FY 2020 Q4		Draft	Draft				Provide
FY 2021 Q1		Exposure-Period	Exposure-Period	Research Draft	Research Draft		Draft FY 21 content
FY 2021 Q2		Exposure-Period Finalize	Exposure-Period Finalize	Draft	Research Draft		Provide
FY 2021 Q3		Finalize	Finalize	Draft	Draft	Merge into TR	Provide
FY 2021 Q4		Finalize / Approve	Finalize / Approve Research	Draft Research	Draft Research	Finalize / Approve	Draft FY 22 content
FY 2022 Q1		Issuance	Issuance Draft Research	Draft	Draft	Issuance	Draft FY 22 content
FY 2022 Q2			Draft Exposure Period	Draft Exposure Period	Draft Exposure Period		Provide
FY 2022 Q3		Research	Exposure Period Finalize	Exposure Period Finalize	Exposure Period Finalize		Provide
FY 2022 Q4		Research	Finalize / Approve	Finalize / Approve	Finalize / Approve		Provide
FY 2023 Q1		Research	Issuance	Issuance	Issuance		Provide
FY 2023 Q2							Provide
FY 2023 Q3							Provide
FY 2023 Q4							Provide
FY 2024 Q1	SFFAS 54 effective						