

Leases Implementation Task Force Meeting Minutes
February 22, 1:30 PM to 4:00 PM and March 2, 1:30 PM to 4:00 PM
Video Conference (WebEx)

February 22 – Part 1

Attendance

Mr. Perry, FASAB senior analyst, and Ms. Dewhirst, FASAB fellow on detail from GSA, were present throughout the meeting. Formal attendance was not taken due to the large task force membership and observer group constituency.

This meeting was held via WebEx, and all members and observers dialed in. Over 100 individuals connected into the conference call.

Welcome; Overview of Meeting Objectives; Project Status and Timelines (Agenda Item #1)

Welcome and Overview of Meeting Objectives

The task force meeting officially convened at about 1:30 PM. Mr. Perry kicked off the meeting by welcoming task force members.

Mr. Perry stated that the task force would discuss action items and staff-recommended changes as a result of the comment letters to the joint leases exposure draft during part one of the meeting. Staff will receive task force feedback on these.

Part two, to be held on March 2, will discuss the remainder of any action items and staff-recommended changes as a result of comment letters. After staff's presentation of any action items and staff-identified changes and obtaining feedback from the task force on those items, staff will open up discussions to determine if there are other action items or issues that task force members believe should be addressed that were not included in staff's list of action items and recommended changes.

Review Project Plan

Mr. Perry noted that the timelines in the leases implementation project plan (Attachment 1) remain unchanged. He mentioned that the implementation guidance and the omnibus amendments are on track to be issued by the end of this fiscal year.

Misc. Leases Implementation Projects (Agenda Item #2)

Update on Staff Implementation Guide and RWA Interpretation

Mr. Perry explained that staff is working on a staff implementation guide to provide illustrations requested by GSA. He noted that this will be level D GAAP. He noted that staff is also working on an interpretation to address reimbursable work authorizations (RWAs) between agencies. That project is currently in the research phase.

Treasury Update

Mr. Casto, from the Bureau of the Fiscal Service, provided an update on the potential USSGL changes required to implement SFFAS 54. He reviewed the existing lease USSGLs and then

explained the proposed new lease USSGLs. He invited members of the task force to join the Treasury working group and provide feedback on the current proposal.

Staff presentation: ED comments on proposed TR and staff proposals for addressing key issues (Agenda Item #3)

Ms. Dewhirst stated that she and Mr. Perry reviewed all the comment letters individually and then worked together to assess each comment and what action, if any, staff could take to address it. She noted that this led to the creation of the Action Items from Joint ED Comment Letters spreadsheet (Attachment 4). She stated that staff proposed edits to the TR and the omnibus based on the Attachment 4 and would go through each of those edits during this meeting and the follow up meeting on March 2.

Ms. Dewhirst asked task force members to provide input, question-by-question, as she recapped the proposed edits to the technical release (Attachment 2) based on the comment letters received. For consistency in these minutes, the numbering listed below is as of the 3/2 meeting materials.

Ms. Dewhirst expressed that some of the comments received on question 12 (previously question 4) were outside the scope of the specific question. However, staff did address the concerns that were within the scope of the question. Staff also decided to move this question further down in the scope and definitions section to provide better flow in the guidance.

On question 4, Ms. Dewhirst noted that additional details were added to provide clarity to the question and answer. A task force member noted that the accounting for leases with interrupted control could be complex and asked that more guidance be provided in this area.

On question 5, Ms. Dewhirst stated that a respondent requested that this Q&A be expanded to include other interests in land, not just easements. Staff agreed with this recommendation and made the appropriate edits. Another respondent noted that permanent easements would not meet the period of time criterion required to meet the definition of a lease and asked that the answer state that more clearly. Staff agreed and made that requested edit as well. The task force agreed with these edits.

On question 8, Ms. Dewhirst noted confusion among respondents in whether the reporting entity in the example possessed the right of first refusal for the solar power, and if that gave the reporting entity control of the underlying asset. Ms. Dewhirst explained that staff reworded the question to eliminate the confusion. Members of the task force stated that they agreed with the change.

On question 10, Ms. Dewhirst expressed that there was some confusion from a respondent on how the right of substitution should affect the evaluation of a lease. She noted that staff kept the original answer but did add a second paragraph to try to address this issue. She explained that a substitution alone would not require reevaluation or remeasurement of the lease; however, if a lease modification results in a substitution with a change in the price, then the lease should be remeasured in accordance with paragraph 44 of SFFAS 54.

Ms. Dewhirst noted that staff is proposing to delete question 12 (previously question 13) as DOI pointed out that it had the potential to create confusion because the answer really depends on the specific terms of each lease agreement. Since DOI is the primary agency involved in leases for oil and gas exploration, staff placed considerable weight on their concerns and agreed to delete the question. Members of the task force did not express concern with deleting this question.

Ms. Dewhirst stated that question 14 was added to address a concern a respondent raised about a particular situation. The task force had no objection to including this Q&A.

Ms. Dewhirst noted that question 15 was added to clarify that consideration can be monetary and non-monetary. The task force had no objection to including this Q&A.

On question 19, Ms. Dewhirst noted that a respondent requested guidance on heritage assets and stewardship land and staff developed the proposed Q&A. The task force had no objection to including this Q&A.

On question 24, Ms. Dewhirst stated that several respondents had concerns with this question and with paragraph 19.a in SFFAS 54. She noted that the main concern expressed was that options that can be exercised by either party are excluded from consideration regardless if the penalties associated with such options make them extremely unlikely to be exercised. Respondents noted that this seems incongruous with the probability/significant evidence requirements for assessing options that can be exercised unilaterally. Ms. Dewhirst noted that while staff did not propose edits to the TR or omnibus at this time, staff will revisit this issue with the Board.

On question 26, Ms. Dewhirst noted that a respondent said the Q&A was confusing. She stated that staff provided edits to eliminate the confusion. The task force had no objections to these edits.

On question 27, Ms. Dewhirst expressed appreciation to a respondent for catching a mistake in a paragraph reference. The answer originally referred to paragraphs 15-20 of SFFAS 54 but only paragraph 20 was necessary.

Ms. Dewhirst stated that on question 29 a respondent noted that it was unclear if the renewal option was exercisable by the lessee or lessor. Ms. Dewhirst explained the edits made by staff to provide clarity. The task force had no objections to these edits.

Ms. Dewhirst stated that staff added question 30 to address concerns from respondents on when reassessment of the lease term is required. Task force members raised concerns about the need to reclassify a lease from a short-term lease to a lease liability and lease asset when the *remaining* lease term is 24 months or less. Mr. Perry and Ms. Dewhirst stated that SFFAS 54 does not provide for using *remaining* lease term in reassessment, but rather that the full lease term should be determined. If the full lease term exceeds 24 months, then it can no longer be considered a short-term lease. Staff noted that the only exception to this is the transition guidance for implementation. Staff also noted that if the Board were to consider an omnibus change to allow for the use of *remaining* lease term in short-term lease evaluation, it could have the unintended consequence of creating a loophole to avoid balance sheet recognition of leases. Staff does not recommend pursuing this option.

Ms. Dewhirst stated that on question 36 respondents noted that deferral and subsequent amortization of lease concessions represents a significant amount of work. Respondents questioned the value this provides, especially for short-term leases where the rest of the lease transaction is not recorded on the balance sheet. Staff agreed with this concern and will propose an omnibus amendment to the Board to remove the requirement to straight-line lease incentives and concessions for short-term leases in paragraphs 23-24 of SFFAS 54 (Attachment 4). The task force was very appreciative and agreed with this proposal. Ms. Dewhirst also noted that question 36 would likely be deleted if the Board accepts the omnibus proposal.

Ms. Dewhirst noted that question 40 was added to address a concern raised by a respondent that purchase options deemed likely to be exercised could be confused for contracts or agreements that transfer ownership. The task force had no objection to including this Q&A.

At the 2/22 meeting, Ms. Dewhirst explained edits made to questions 38-39 in the intragovernmental section and asked for task force member feedback. She also noted a new question added in this section to address specific situations in intragovernmental leases where a reporting entity (as a

lessee) may consider something a lease concession in the original lease but *not* a lease concession when the reporting entity (as a sub-lessor) passes it on to the sub-lessee in an intragovernmental lease. While the task force was supportive of the new Q&A and the edits to the other questions, members raised concerns about the burden these requirements place on agencies (especially since the rest of the intragovernmental transition is off the balance sheet) and the risk for increased intragovernmental differences. Staff agreed to review this in more detail and discuss again at the 3/2 meeting.

At the 3/2 meeting Ms. Dewhirst directed the task force members' attention to the intragovernmental section of the TR and the requirement in paragraphs 32-33 of SFFAS 54 to straight-line lease incentives and lease concessions in intragovernmental leases. She explained that she and Mr. Perry agreed with the concerns raised by the respondents and the task force and that staff was proposing an omnibus amendment to rescind paragraphs 32-33 of SFFAS 54 and modify paragraph 31 to allow all increases/decreases/lease incentives/lease concessions to be recognized in the period in which they occur. She explained that if the Board accepts that omnibus proposal, then the current questions under the intragovernmental section of the TR would be deleted. She also stated that if the Board does not accept the omnibus proposal then the current questions and the new question added that was discussed at the 2/22 meeting will be retained. Several task force members commented that they were in favor of this proposal.

On question 50, Ms. Dewhirst noted that a respondent provided edits that staff agreed were beneficial. The task force had no objections to these edits.

On question 55, Ms. Dewhirst stated that edits were made to make the question and answer more narrow. A member of the task force asked that additional examples be provided for other costs that could be paid prior to the commencement of the lease, specifically leasehold improvements. Staff explained that these will be addressed in the forthcoming RWA interpretation.

Ms. Dewhirst thanked a respondent for pointing out an error in question 58 and noted the correction made by staff.

Ms. Dewhirst noted the removal of the reference to paragraph 44.b in question 64 and thanked the respondent who pointed out that it was unnecessary.

On question 65, Ms. Dewhirst addressed a wording change that better aligned the question and answer. The task force had no objections to these edits.

On question 77, Ms. Dewhirst explained a respondent's confusion and staff's proposed edits to clarify the answer. A few task force members provided alternative wording and staff worked to reach an agreeable revision.

On question 78, Ms. Dewhirst expressed that staff modified the wording in the answer to address a respondent's concern. The task force had no objections to these edits.

Ms. Dewhirst noted that a question (previously 86) was deleted based on feedback from a respondent. The respondent noted that the answer was overly simplistic and may not be completely accurate. Staff agreed and decided to remove the Q&A entirely.

Next Steps (Agenda Item #4)

Mr. Perry stated that the final task force meeting would be March 2, 2021. He explained that staff would continue to present their analysis and recommendations on the remainder of the TR and the omnibus. After that presentation, staff would open the discussion for any outstanding issues raised

by the task force. Mr. Perry also mentioned that he and Ms. Dewhirst would appreciate comments by email as well.

Remaining items consolidated with the 3/2 meeting below.

Adjournment

Mr. Perry and Ms. Dewhirst thanked the task force for a productive meeting.

The meeting adjourned at 4:00 PM.

March 2 – Part 2

Attendance

Mr. Perry, FASAB senior analyst, and Ms. Dewhirst, FASAB fellow on detail from GSA, were present throughout the meeting. Formal attendance was not taken due to the large task force membership and observer group constituency.

This meeting was held via WebEx, and all members and observers dialed in. Over 100 individuals connected into the conference call.

Welcome; Overview of Meeting Objectives; Recap Project Status and Feb. 22 Meeting (Agenda Item #1)

Welcome and Overview of Meeting Objectives

The task force meeting officially convened at about 1:30 PM. Mr. Perry kicked off the meeting by welcoming task force members.

Mr. Perry stated that the task force would discuss the remainder of the action items and staff-recommended changes as a result of comment letters. After staff's presentation of any action items and staff-identified changes and obtaining feedback from the task force on those items, staff would open up discussions to determine if there are other action items or issues that task force members believe should be addressed that were not included in staff's list of action items and recommended changes.

Review Project Plan

Mr. Perry noted that the timelines in the leases implementation project plan (Attachment 1) remain unchanged. He did not go over the project plan in detail as the task force just reviewed it at the Feb 22 meeting.

Staff presentation: ED comments on proposed TR and staff proposals for addressing key issues (Agenda Item #2)

Ms. Dewhirst picked up the review of the TR (Attachment 2) in the sale-leaseback section. She noted concerns raised by a respondent on the rent concessions in question 94 and explained that since the main point of that Q&A was to address whether or not the scenario in question is a sale-leaseback the piece about rent concessions was just confusing the matter. Therefore, staff proposed removing that piece of the Q&A. The task force did not express any objections to this.

On question 95, Ms. Dewhirst discussed the feedback from respondents and the desire for more detailed guidance on sale-leaseback transactions. She reviewed the edits proposed and also

discussed the possibility of an omnibus amendment to align SFFAS 54 with the framework used in IPSASB ED 75. The task force was in favor of this approach. One task force member also requested that a reference be provided in question 95 for disclosure requirements for borrowing. Staff agreed to investigate that and provide the reference if possible.

On questions 96-98 in the lease-leaseback section, Ms. Dewhirst stated that respondents expressed concerns over disclosing these transactions separately but accounting for them as a net transaction. Staff agreed that this seems to add complexity without enough of a benefit. Ms. Dewhirst explained that staff will propose an omnibus amendment (Attachment 3) to paragraph 93 of SFFAS 54 to address this. The omnibus change would require that lease-leaseback transactions be accounted for as two separate transactions. The task force agreed with this approach.

There was also a discussion on the last sentence in paragraph 93 of SFFAS 54. A task force member mentioned that disclosures are always subject to materiality and since lease-leasebacks are rare they likely would not merit disclosures often. There was a conversation about adding a Q&A in the TR to address this; however, other task force members pointed out that materiality is not typically addressed in specific instances like that but rather as a broad statement that applies to all standards. Staff agreed and decided to leave this alone, and the task force concurred.

In the implementation section, Mr. Perry noted the possibility for confusion with the term “implementation” and renamed this section of the TR “transition guidance for implementation”. He expressed the desire to be clear that the guidance in this section is only to be used for the transition to and initial implementation of SFFAS 54. The task force agreed with this recommendation.

On question 100, Ms. Dewhirst noted feedback from respondents that exposed an error in the original Q&A. The original Q&A said that no restatement of beginning net position would be required because the lease asset and lease liability would be the same. However, respondents noted that there can be valid reasons why this would not be the case. She discussed the edits staff made to the answer to address this and requested feedback from the task force. The task force agreed with the proposed edits, and one task force member requested that additional guidance be provided on lease incentives/concessions that are straight-lined under the current guidance but will not be under SFFAS 54. He asked that guidance be provided on what to do with those unamortized balances. Ms. Dewhirst and Mr. Perry agreed to look into that and provide an additional Q&A if possible. The task force member also requested guidance on unamortized leasehold improvements. Mr. Perry said staff would consider that and potentially could address it as part of the interpretation.

Ms. Dewhirst noted that a question was deleted in the transition guidance for implementation section (previously question 101). She stated that a respondent pointed out that the answer was not complete, and when staff analyzed this, they decided that the revisions to question 100 sufficiently covered this topic as well. The task force did not express any objections to this.

At the completion of the TR review, Ms. Dewhirst directed the task force members’ attention to the omnibus.

Ms. Dewhirst noted an edit to paragraphs 7 and 22 of SFFAS 54 to define a short-term lease as a *non-intragovernmental* lease with a lease term of 24 months or less. This was based on respondent feedback that requested clarity be provided. The task force had no objections to this edit.

Ms. Dewhirst stated that GSA requested that commission credits be removed from the definition of lease concessions as they do not meet the definitional requirement of enticing a lessee to sign a lease. Rather, the use of a broker is simply a means to outsource workload. Any lease negotiated by that broker would result in a commission credit; therefore, it does not entice the lessee to sign a particular lease. The task force generally agreed with this interpretation and agreed with staff’s

recommendation to strike commission credits from paragraphs 10 and 70 of SFFAS 54. However, GSA did raise a question on how commission credits should be treated. They requested that this guidance be provided or that the Board revisit the requirement that a lease concession must entice a lessee to sign a lease. Ms. Dewhirst reminded the task force that staff has proposed rescinding the requirements to straight-line lease incentives/concessions for short-term leases and intragovernmental leases. If the Board approves those omnibus amendments, then those transactions would be recognized in the period in which they occur. She noted that if the Board does not approve those omnibus amendments, then staff will research this area further.

Ms. Dewhirst thanked the respondents who questioned the reference in footnote 5 of paragraph 25 of SFFAS 54. She explained that the footnote referenced paragraph 26 of SFFAS 6, but this paragraph did not address cost information for a contract or agreement that transfers ownership. Therefore, staff is proposing an omnibus amendment to add a paragraph (26A) to SFFAS 6 and cite the new paragraph in footnote 5 of SFFAS 54. The task force members agreed with this omnibus proposal, and one member requested similar guidance for the liability. Staff agreed to consider this and if possible, to draft something similar for the Board's consideration.

Ms. Dewhirst mentioned concerns raised by respondents about the term "deferred revenue". Respondents questioned the use of this term for a liability account and expressed confusion over it. Staff agrees with this concern and is proposing the term "unearned revenue" in its place. Several task force members discussed the merits of various terms and agreed that "unearned revenue" was preferable to "deferred revenue". Ms. Dewhirst noted that the omnibus amendment would replace the term throughout the standard (paragraphs 55, 64, 65, 83, 86, and 90).

Ms. Dewhirst noted feedback received from respondents on paragraph 18 of SFFAS 6. Respondents questioned removing leasehold improvements from PP&E and requested clarity on land rights and contractors or agreements that transfer ownership. Ms. Dewhirst explained that staff reviewed this feedback and made the proposed edits to address these concerns. The task force agreed with these edits.

Ms. Dewhirst noted that several respondents mentioned the differences in the budgetary requirements in OMB Circular A-11, Appendix B, and the financial accounting requirements in SFFAS 54. She explained that these differences are to be expected and that each requirement serves a distinct purpose. The budgetary requirements ensure that the government is entering obligations that are within the proper authority. Whereas the financial accounting requirements ensure that the transaction is reported in a way that gives readers of the financial statements a clear picture of the government's assets and liabilities. Ms. Dewhirst noted that there is nothing to address in the TR nor omnibus on this, but staff will include a discussion on it in the basis for conclusions.

Open Discussion (Agenda Item #3)

A task force member brought up an issue with lease-like transactions and asked for guidance on how to record them. He stated that there are inter-entity agreements where Group A is allowed to use space that belongs to Group B, but Group A does not pay anything for the use of the space. Group B benefits from the arrangement in some ways as well, like getting access to things produced by Group A that they would not have had otherwise. These would not meet the definition of a lease in SFFAS 54 because there is no consideration and even though there is some benefit it is not in-kind services. The task force member requested guidance on how to handle these agreements. Mr. Perry noted that this should be addressed in phase 2 of the P3 project; however, that project has not yet begun. Mr. Perry stated that staff would bring this to the Board's attention at the April meeting.

Another task force member asked for clarification on transition guidance for capital leases. Mr. Perry and Ms. Dewhirst explained that it will be necessary to evaluate every lease with the criteria in

SFFAS 54 and the transition guidance at implementation. They explained that a lease could have been a capital lease for many different reasons, and each will need to be evaluated under SFFAS 54. For example, a lease with a transfer of ownership agreement would need to follow the requirements in paragraph 25 of SFFAS 54. A lease with a purchase option that is probable of being exercised and has more than 24 months remaining in the lease term would need to record a lease liability and lease asset. They further explained that if the lease term is less than 24 months at the date of implementation, it would be short-term lease.

Next Steps (Agenda Item #4)

Task Force Meeting Minutes

Mr. Perry stated that the minutes for the February 22 and March 2 task force meetings will be combined into one file and circulated for review. He also mentioned that he and Ms. Dewhirst would continue to accept comments by email for any outstanding issues.

AAPC March Meeting

Mr. Perry stated that the next AAPC meeting will be March 11, 2021 from 9:00 AM - 4:00 PM ET. Ms. Dewhirst and Mr. Perry intend to provide the AAPC with a similar presentation to these task force meetings. They encouraged task force members to monitor the project page and listen in to the meeting. Dial-in instructions are included on the posted agendas.

FASAB April Board Meeting

Mr. Perry encouraged task force members to listen in during the April 27-28 FASAB Board meeting. The Board will be discussing the comment letters received on the exposure draft and staff's analysis and recommendations.

Next Steps

Mr. Perry and Ms. Dewhirst will:

- a. Follow up directly with task force members to obtain clarification as needed.
- b. Continue to discuss implementation issues one-on-one with task force representatives—over the phone and electronically—in the coming days.

Adjournment

Mr. Perry and Ms. Dewhirst thanked the task force for a productive meeting.

The meeting adjourned at 4:00 PM.