

Accounting and Auditing Policy Committee (AAPC) Meeting Minutes

April 12, 2023, 1:00 PM ET

Virtual via Zoom for Government

Attendance

Members

Ms. Monica Valentine (AAPC Chair)
Mr. Brian Casto (Treasury)
Ms. Charlotte Beacham, for Ms. Laurance
Ms. Carol Johnson (OMB)
Present: Mr. Troy Meyer (CIGIE)
Ms. Sarah Nelson (CIGIE)
Mr. Joseph O'Neill (GAO)
Dr. Dorothy Potter (At-large)
Mr. Robert Smalskas (CFOC)

Staff

Ms. Sherry Lee, Senior Analyst
Mr. Ricky Perry, Senior Analyst
Mr. Josh Williams, Senior Analyst

Mr. Jason Kirwan (General Counsel)
Mr. Juan Garay (General Counsel)

Apologies: Mr. Alvin Brown (CIGIE)
Mr. Prasad Kotiswaran (CFOC)
Ms. Kim Laurance (CFOC)

Welcome, Administrative Matters ([Agenda Item #1](#))

The meeting began at 1:01 PM. Ms. Valentine began the meeting by welcoming members. Mr. Perry called roll.

Leases – Updates to Technical Release (TR) 20 ([Agenda Item #2](#))

Mr. Perry, senior analyst, directed committee members to the project plan, [attachment C](#), which was discussed and approved by the AAPC in February. He noted that the project remains on schedule, as reflected in the latest version of the plan. Mr. Perry noted that staff worked with independent coders to perform content analyses and research to inform the staff analysis and recommended updates for the meeting discussions.

Mr. Perry then directed members to page 2 of [attachment A](#). He summarized staff's recommended updates to TR 20, including (a) one conforming amendment candidate, (b) two staff-proposed implementation guidance candidates related to the definition of a lease and the control criteria, (c) seven new implementation guidance candidates based on the review of Governmental Accounting Standards Boards implementation guidance updates, and (d) two technical corrections.

Mr. Perry explained that, although only one technical correction is presented in the meeting materials, staff will present a second technical correction candidate later in the meeting.

Part 1 of 4: One conforming amendments candidate

Mr. Perry presented staff's recommendation to amend paragraph 78 of TR 20 to conform the guidance with paragraph 42 of Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, as amended by paragraph 6 of SFFAS 61, *Omnibus Amendments 2023* (see [Attachment B, par. 5](#)). Mr. O'Neill instructed staff to consider removing the parenthetical text of the proposed conforming amendment. In reexamining the question, Mr. Perry agreed, noting that the mention of subsequent measurement criteria within the answer would be confusing, given its irrelevance to the implementation guidance scenario. Mr. O'Neill agreed. The committee preliminarily approved the

amendment. Members will review the minor updates to the proposed amendment at the May meeting.

Part 2 of 4: Additional guidance on the definition of a lease and control

Mr. Perry presented staff's recommendation to insert two new questions and answers (paragraphs 8A and 8B) in between paragraphs 8 and 9 of TR 20 (see [Attachment B, par. 6](#)). He noted that staff have been contacted by a few practitioners and auditors with requests to expand the implementation guidance on the lease definition and the control criteria. Mr. Perry expressed staff's view that inclusion of guidance related to the essential elements of control and the definition of a lease would benefit practitioners and facilitate improved understanding of paragraphs 2-3 of SFFAS 54. Through extensive conversations with General Services Administration (GSA) practitioners, staff determined that scenarios on fiber optic cable contracts and agreements would provide illustrative examples and opportunities to clarify the guidance in these areas.

Mr. O'Neill, acknowledging some preparatory technical discussions held with staff in advance of the meeting, thanked staff for discussing this guidance with him in advance of the meeting and identifying opportunities to improve the draft. At the invitation of staff, Mr. O'Neill summarized his technical comments and encouraged staff to align paragraph 8A and 8B scenarios more closely with analogous Financial Accounting Standards Board (FASB) implementation guidance on fiber optic cables. He noted that having control of a specific, tangible dark fiber, along with the equipment to light the fiber (as is illustrated under the FASB guidance), was more consistent with the definition of a lease, whereas "specified capacity rights" in the scenario do not clearly provide sufficient rights to deny and regulate the access of others to an identified asset. Staff will determine if the FASAB can obtain copyright permission from the Financial Accounting Foundation and revise paragraph 8A and 8B accordingly.

Ms. Johnson expressed concern that the presentation of the information in paragraph 8A could inadvertently cause practitioners to believe that utility service contracts meet the definition of a lease. Mr. Perry explained that the forthcoming changes should address the concern. He also suggested flipping the order of paragraphs 8A and 8B. Ms. Johnson and other committee members agreed that such a change would be helpful. Staff will track the updates to these paragraphs and present them to the committee for reconsideration in May.

Part 3 of 4: Seven additional guidance candidates based on a content analysis of GASB implementation guidance updates

Mr. Perry presented staff's recommendation to insert a new question and answer (paragraph 11A) in between paragraphs 11 and 12 of TR 20 (see [Attachment B, par. 6](#)). The committee preliminarily approved the new question and answer.

Mr. Perry presented staff's recommendation to insert two new questions and answers (paragraphs 24A and 24B) in between paragraphs 24 and 25 of TR 20 (see [Attachment B, par. 7](#)). Several members agreed with the guidance in paragraph 24A but noted that advance notice periods of greater than 24 months would be exceptionally rare in a lease. As a result, the guidance may create confusion among users. Members agreed to remove the paragraph 24A proposal. The committee preliminarily approved the new question and answer under paragraph 24B.

Mr. Perry presented staff's recommendation to insert one new question and answer (paragraph 32A) in between paragraphs 32 and 33 of TR 20 (see [Attachment B, par. 8](#)). The committee preliminarily approved the new question and answer.

Mr. Perry presented staff's recommendation to insert one new question and answer (paragraph 45A) in between paragraphs 45 and 46 of TR 20 and another new question and answer (paragraph 52A)

in between paragraphs 52 and 53 of TR 20 (see [Attachment B, par. 9](#)). Mr. Casto requested that staff consider clarifying language in the paragraph 45A proposal. He expressed concerns that some practitioners may encounter similar scenarios in which other paragraphs of SFFAS 54 might apply. Mr. Perry offered to work with Mr. Casto offline to review the concern and integrate clarifying edits as necessary. The committee preliminarily approved the new question and answer, subject to a follow-up review of the committee of any technical or clarifying amendments. Staff will track the updates to the proposal and present them to the committee in May. Mr. Casto suggested that it might also be helpful for the question and answer in the paragraph 52A proposal to explain the accounting treatment for the amortization of the right-to-use lease asset under the scenario. Mr. Perry noted that the question would need to be broadened, since the guidance is specific to interest expense (the amortization of the discount on the lease liability). The committee preliminarily approved the new question and answer, and agreed to reconsider the option of broadening the question in May.

Mr. Perry presented staff's recommendation to insert a new question and answer (paragraph 75A) in between paragraphs 75 and 76 of TR 20 (see [Attachment B, par. 10](#)). In response to a question from Ms. Johnson, Mr. Perry clarified that rent holidays (as reflected in the scenario) are fairly common. The committee preliminarily approved the new question and answer.

Part 4 of 4: Two technical correction candidates

Mr. Perry presented staff's recommendation to amend paragraph 25 of TR 20 (see [Attachment B, par. 11](#)). Mr. Perry noted the Governmental Accounting Standards Board (GASB) is implementing a similar technical correction in its leases implementation guidance. The term "cancellable period" has a specific meaning under paragraph 19.a of SFFAS 54. The periods covered by the lessee's option to terminate under the TR 20 scenario are not cancellable periods under this specific meaning. The committee preliminarily approved the technical correction.

Mr. Perry also noted that staff identified a second technical correction candidate in recent weeks after discussions with subject matter experts on the task force. Mr. Perry presented a recommendation to amend the intragovernmental guidance under paragraph 17 of TR 20 by removing references to paragraphs 32-36 of SFFAS 54. Paragraphs 32-33 were rescinded by SFFAS 60, *Omnibus Amendments 2021*, paragraphs 34-35 provide guidance on expenses for owned PP&E, and paragraph 36 provides guidance on expenses that are often not intragovernmental expenses under the definition for initial direct lease costs (SFFAS 54, par. 13). The committee preliminarily approved the technical correction based on staff's explanation.

Additional content analysis items

Mr. Perry noted that staff and independent coders did not reach an agreement on one item during the content analysis of GASB Implementation Guide 2021-1, paragraph 4.7, when analyzing one item as a potential technical correction candidate. The GASB guidance calculates the lease term of a seasonal lease with interrupted control based on the period of uninterrupted use; independent coders expressed agreement with the notion that a lease term should reflect the period of use. TR 20, paragraph 4, provides an example of interrupted control with the lease term based on the non-cancellable period plus certain option periods without regard to interruption periods. Mr. Perry explained that lease liability calculations reflect interrupted control through the payments expected to be made during the lease term. FASAB staff believes that the lease term data element should reflect the non-cancellable period plus certain option periods, including periods of interrupted control and interrupted payment streams, so that the discount rate is based on the appropriate period of expected payments. FASAB staff also reaffirmed that TR 20, paragraph 4, to be consistent with SFFAS 54.

Ms. Johnson raised a question concerning TR 20, paragraph 91. Ms. Valentine indicated that staff is performing additional research on the paragraph and will report back to the committee.

Mr. O'Neill raised questions concerning TR 20, paragraphs 10 and 30-31. Mr. Perry indicated that staff does not recommend changes to such paragraphs.

Wrap-up, Next Steps (Agenda Item #3)

The committee will review and discuss a pre-ballot draft exposure draft at the May meeting. Subject to committee feedback, staff intends to ballot the proposal soon after the May meeting and issue an exposure draft in late May or early June.

Adjournment

Ms. Valentine thanked the committee for a productive meeting.

The meeting adjourned at 3:29 PM.