

Memorandum

Updates to TR 20

May 4, 2023

To: Members of the AAPC
From: Ricky A. Perry, Jr., Assistant Director
Thru: Domenic N. Savini, Acting Director
Subject: **Proposed Updates to TR 20** (Attachment A)

INTRODUCTION

The memo includes a summary and analysis of updates to the draft Technical Release (TR) based on committee members' feedback at the April AAPC meeting.

REQUEST FOR FEEDBACK

Committee members should review these materials in advance of the meeting.

Although staff is not requiring technical feedback in advance of the meeting, members are encouraged to provide comments or edits in advance to Mr. Perry at PerryRA@fasab.gov, with a cc to Ms. Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending committee feedback and discussions, staff intends to distribute ballots and a ballot copy of the draft exposure draft soon after the meeting.

ATTACHMENTS

- B. Pre-ballot draft exposure draft: *Leases Implementation Guidance Updates*
- C. Project plan (approved in February)

REFERENCE MATERIAL

1. [SFFAS 54: Leases](#)
2. [SFFAS 60: Omnibus Amendments 2021, Leases-Related Topics](#)
3. [SFFAS 61: Omnibus Amendments 2023, Leases-Related Topics II](#)
4. [Technical Release 20: Implementation Guidance for Leases](#)

Summary:

- ✓ Preliminarily analyzed, discussed, and approved in April
- ↻ Preliminarily approved, subject to follow-up discussions in May
- ✍ Revised based on committee feedback in April
- ★ New candidate based on committee feedback in April

A. One conforming amendment candidate:

Par. to amend	TR 20 topic area	Source	Att. B par.
78↻ Item 1	Contracts and agreements with multiple components	SFFAS 61, par. 6-10	5

B. Eight new implementation guidance candidates:

Par. to add	TR 20 topic area	GASB/FASB source	Att. B par.
8A-8B✍ Item 2	Scope and definitions	ASC 842-10-55-55.62	6
11A✓	Scope and definitions	IG 2020-1, par. 4.6	6
24A✓	Lease term	IG 2023-1, par. 4.1	7
32A✓	Short-term leases	IG 2020-1, par. 4.11	8
45A↻ 52A↻ Item 3	Lessee rec. and measurement	IG 2021-1, par. 4.11 IG 2023-1, par. 4.4	9
75A✓	Lease incentives and concessions	IG 2021-1, par. 4.17	10

C. Three technical correction candidates:

TR 20 par. to correct	TR 20 topic area	Source	Att. B par.
17✓	Scope and definitions	Research	11
25✓	Lease term	GASB IG 2023-1, par. 5.1	12
91★ Item 4	Subleases	Research	13

Detailed analyses of each item requiring AAPC discussion begins on the next page. Also see Item 5, which summarizes minor updates to the basis for conclusions.

Analysis

Item 1: Paragraphs 78 revisions

78 ↻

Contracts and agreements with multiple components

SFFAS 61, par. 6-10

5

Staff made the following changes to **paragraph 5 of Attachment B** in response to committee feedback in April:

- Staff recommends highlighting the “considerable difference” in lease terms under paragraph 78 of TR 20. This clarifying edit may help practitioners apply the provisions of paragraph 74, understanding that components with similar lease terms under a contract (for example, a building with a 30-year lease term and a parking garage with a 29-year lease term) may not always need to have separately assessed discount rates. This change is consistent with the guidance for selecting rates provided under paragraph 42B of SFFAS 54, as amended by SFFAS 61. Accordingly, the change represents an additional conforming amendment.
- Staff struck the parenthetical text referencing “subsequent financial reporting dates” under the proposed conforming amendment based on committee feedback, as such language is irrelevant to the initial measurement scenario under paragraph 78 of TR 20.

Item 2: Paragraphs 8A-8B revisions

8A-8B ↻

Scope and definitions

ASC 842-10-55-55:62



6

Staff made the following changes to **paragraph 6 of Attachment B** in response to committee feedback in April:

- Reversed the order of the two questions and answers based on committee feedback. Paragraph 8A is an example of a utility contract that *does not meet* the definition of a lease, followed by paragraph 8B, which is an example of a utility contract that *meets* the definition of a lease.
- Added phrasing to align with ASC 842 implementation guidance, to the extent such implementation guidance aligns with or does not conflict with the guidance under paragraphs 2-3 of SFFAS 54, including clarifying edits that highlight the physically distinct dark fibers and provisions of the agreement that clearly demonstrate control of the underlying asset in the paragraph 8B scenario (and distinguishing the absence of such provisions in the paragraph 8A scenario).

- Improved the flow of paragraph 8A, given the relevance of paragraph 2 of SFFAS 54 in determining the absence of a specified underlying asset.

Item 3: Paragraphs 45A and 52A edits and follow-up consultations

45A 	Lessee rec. and measurement	IG 2021-1, par. 4.11	9
52A 		IG 2023-1, par. 4.4	

Staff made the following changes to **paragraph 9 of Attachment B** in response to committee feedback in April:

- Staff identified technical corrections under the proposed paragraph 45A answer. Staff found that the reimbursements to the lessor for the lessor's real estate taxes are:
 - Probable of being required based on the described provisions of the contracts (par. 40.h of SFFAS 54).
 - Are part of the lease contract in consideration for the right to use the office space, as they do not (a) substantively represent variable payments based on future performance of the lessee, or (b) represent payments for goods or services in addition to the right to use the office space. In essence, the payments are in-substance consideration for the lease in the same way that other lease contracts and agreements might price estimated taxes and insurance within the rent payments without subsequent reimbursement for actuals.
- After follow-up consultations with Mr. Casto following the April meeting, staff and Mr. Casto agreed not to broaden the proposed question 52A and address the amortization of the lease asset. Paragraph 52A will be inserted under the "lease liability" topic area of TR 20, which further complicates broadening the question to address the "lease asset" topic area. Notwithstanding, staff remains open to broadening the question if other committee members would like to do so. Staff will raise this matter for committee discussion at the May meeting.

Item 4: Paragraph 91 of TR 20 technical correction

91 	Subleases	Research	13
--	-----------	----------	----

- Staff previously received a technical inquiry and position paper from the Department of State in response to this question and answer. Staff recently consulted with Department of State staff and GAO's Chief Accountant on the matter. These consultations clarified critical technical aspects of the technical

inquiry and position paper previously received, and staff has gained a more complete understanding of the process.

- Because the Department of State oftentimes acts in an agent capacity with international residential leases, they are often not responsible for the original lease payments in the same way that the General Services Administration (GSA). With domestic leases with the public GSA collects rents from its intragovernmental sublessee customers and pays rent to original non-federal lessors through the Federal Buildings Fund. In contrast, the Department of State provides leasing services to its customers, but the consideration for the original lease is paid directly by the reporting entity assigned occupancy. Therefore, in substance, the occupying agencies are not sublessees—they are original lessees, receiving only reimbursable administrative leasing services from the State Department.
- Staff recommends an exposure draft proposal that addresses this critical element by presenting conceptual guidance to distinguish between these types of intragovernmental arrangements and how the lease would be recorded by one of the reporting entities under each type of arrangement, depending the capacity in which Agency ABC is acting.

Item 5: Basis for Conclusions updates

- Staff recommends paragraphs A7-A8 which highlight and explain limited technical differences between the proposals and analogous implementation guidance when compared to the guidance provided by the GASB and the FASB. This discussion should help inform respondent evaluations of the proposals and the technical differences reflected.