

Accounting and Auditing Policy Committee (AAPC) Meeting Minutes

September 8, 2023, 1:30 PM ET

Virtual via Zoom for Government

Attendance

Members

Ms. Monica Valentine (AAPC Chair)
Mr. Edson Barbosa for Ms. Laurance
Mr. Alvin Brown (CIGIE)
Mr. Brian Casto (Treasury)
Ms. Christi Dewhirst for Mr. Smalskas
Present: Ms. Carol Johnson (OMB)
Mr. Troy Meyer (CIGIE)*
Ms. Sarah Nelson (CIGIE)*
Mr. Joseph O'Neill (GAO)
Dr. Dorothy Potter (At-large)

Staff

Mr. Ricky Perry, Assistant Director
Mr. Brian Robinson, Analyst
Mr. Josh Williams, Senior Analyst

Mr. Jason Kirwan, General Counsel

Mr. Prasad Kotiswaran (CFOC)
Apologies: Ms. Kim Laurance (CFOC)
Mr. Robert Smalskas (CFOC)

* These members were absent during various portions of the meeting. A quorum was maintained throughout the meeting, however.

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

The meeting began at 1:41 PM. Ms. Valentine began the meeting by welcoming members.

Ms. Valentine called roll.

Ms. Valentine and Mr. Perry summarized the objective of the meeting: to discuss comments and changes to the proposed updates to leases implementation guidance.

Mr. Perry noted that the exposure draft (ED) was released for a 30-day comment period. He expressed appreciation on behalf of the Committee to the task force members and organizations that reviewed the proposals and submitted thorough and insightful comments and improvements on the proposed Technical Release (TR).

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

Mr. Perry directed members to the [meeting materials](#) and briefly summarized the staff analysis and recommendations under attachment A for the benefit of meeting observers and to facilitate subsequent discussions. Mr. Perry also summarized the leases project plan in attachment D. He reminded members that staff will continue to monitor implementation questions over the next 12-16 months as part of the next phase of the AAPC's leases implementation project.

Members generally agreed to address the discussion questions in the order presented in the materials except for attachment B, par. 7 (changes to paragraph 17 of TR 20, *Implementation Guidance for Leases*); members elected to address this item at the end of the meeting.

Att. B, par. 5 – proposed conforming amendments to par. 78 of TR 20

Mr. Casto noted that the Bureau of Fiscal Service has received questions on how to select marketable Treasury security rates. Mr. Casto requested discussion on potentially including additional language under the paragraph. Ms. Dewhirst observed that additional language would seemingly be redundant of the content already existing in the paragraph. She also observed that perhaps such content would re-emphasize points that are somewhat beyond the original focus the implementation scenario and question. The Committee also discussed certain technical aspects of making additional changes to the paragraphs.

Mr. Casto and Ms. Johnson preliminarily agreed that Fiscal Service and OMB could also explore options for potentially providing updates in OMB and Treasury guidance related to some of the technical questions received by Fiscal Service on rate selections. Members also generally agreed that staff and members of the Committee could continue to monitor rate selection implementation issues and their significance. The Committee may consider providing additional question-and-answer guidance during the next round of updates to TR 20 based on subsequent research and monitoring efforts.

After discussion, the Committee agreed with staff's analysis of the paragraph, which did not identify any recommended changes.

Att. B, par. 6 – adding proposed par. 8A-8B to TR 20

Mr. Perry summarized staff's analysis of comments on the proposed paragraph and staff's recommended edits based on responses. Specifically, staff recommended adding an additional sentence at the end of the paragraph 8A with no further changes to paragraph 8B. Mr. Perry noted that the change to paragraph 8A would enable users of TR 20 to gain a more holistic understanding of paragraphs 2-4 of SFFAS 54, *Leases*, and the interrelationships among those paragraphs.

Members discussed options for potentially rephrasing the questions. Members agreed that the questions are intended to highlight and further explain common perceptions stemming from similarities between contracts or agreements that meet the definition of a lease and those that do not. Mr. Perry noted that analogous Financial Accounting Standards Board (FASB) guidance is phrased similarly, expressing his view that the phrasing used in the exposure draft (ED) served this purpose.

The Committee agreed with staff's recommended revision based on responses, as reflected in attachment B.

Att. B, par. 8 – adding proposed par. 11A to TR 20

Members agreed with staff's analysis of the paragraph, which did not identify any recommended changes. Respondents generally supported the proposed paragraph.

Att. B, par. 9 – adding proposed par. 32A to TR 20

Mr. Perry noted a technical correction identified by a respondent and recommended by staff. Members concurred with this recommended change. Members also discussed and agreed to clarifying edits to the paragraph to improve readability and more succinctly answer the implementation scenario question.

Att. B, par. 10 – adding proposed par. 52A to TR 20

Mr. Perry summarized staff's analysis of comments on the proposed paragraph and staff's recommended edit based on a comment letter, which suggested adding the phrase "using the interest method" to the answer. Members agreed with this proposed change.

Att. B, par. 11 – adding proposed par. 75A to TR 20

Mr. Perry summarized staff's analysis of comments on the proposed paragraph and staff's recommended edits based on responses. Specifically, staff recommended adding the phrase "in a systematic and rational manner" to the guidance, which is consistent with paragraph 50 of SFFAS 54. Members agreed with this proposed change.

Att. B, par. 12 – technical correction to par. 25 of TR 20

Members agreed with staff's analysis of the paragraph, which did not identify any recommended changes. Respondents generally supported the proposed paragraph.

Ms. Johnson noted one minor grammatical error made in the ED version of paragraph 25 in TR 20. Staff will implement this corrective edit in the updated pre-ballot provided to the Committee. The change will not be tracked as a corrective amendment in the final pronouncement, because the minor grammatical error was limited to the ED version of paragraph 25 only; therefore, no grammatical amendment is necessary in TR 20.

Att. B, par. 13 – rescission and replacement of par. 91 of TR 20

Members agreed with staff's analysis of the paragraph and recommended edits based on an ED response.

Ms. Dewhirst recommended, and the Committee members agreed, that the basis for conclusions should discuss the Committee's rationale and basis for rescinding and replacing paragraph 91 of TR 20. Specifically, the Committee—through follow-up outreach and research—identified additional relevant factors necessitating a change.

Ms. Johnson and Mr. O'Neill suggested based on ED responses, and the Committee members agreed, that staff should incorporate minor technical revisions into the answer to address short-term international residential leases (rather than assuming the lease term is greater than 24 months). Mr. Perry noted that the question could remove reference to the "10-year lease term" and that these technical revisions could be integrated into the updated pre-ballot copy circulated to members.

Mr. Perry noted that international residential leases at the component level in this area may not be short-term leases at the consolidated level. Further, he suggested that the issue can be revisited by the AAPC after reporting entities are provided the opportunity to implement SFFAS 54 and further study the implementation issues. Mr. O'Neill noted that international residential leases are likely to be immaterial at the consolidated level. Mr. Perry agreed but cautioned that the amounts may exceed the clearly trivial threshold on audits, which would result in proposed adjustments or inclusion on the schedule of uncorrected misstatements under the auditing standards. AAPC implementation guidance should help prevent and resolve these matters to the extent possible. Staff will continue to monitor this area.

Att. B, par. 7 – par. 17 of TR 20

Mr. Perry noted that paragraph 27 of SFFAS 54 cites examples of lease component expenses and nonlease component expenses, such as maintenance and utilities. He noted that paragraph 17 of TR 20 directs agencies to paragraph 27 without further elaborating on the inclusion or exclusion of lease and nonlease component examples that are parenthetically cited in paragraph 27 of SFFAS 54. For this reason, staff recommended rescinding the proposed paragraph and referring the matter to the Board.

Mr. Perry also noted that, respondents did not object to the exposed amendment to paragraph 17. However, upon further examination, staff determined that the removal of reference to paragraph 36 of SFFAS 54 (which discusses intragovernmental initial direct lease costs) in paragraph 17 of the guidance would be inconsistent with SFFAS 54 provisions that indicate these costs would likely be included in annual lease expenses. Mr. Perry pointed to the definition of initial direct lease costs under paragraph 13 of SFFAS 54. He also noted that provisions of paragraphs 49 and 50 of SFFAS 54 and paragraph 17 of TR 20 for leases with the public effectively call for the inclusion of initial direct lease costs in annual lease expenses with the public. After discussion, members agreed not to remove reference to paragraph 36 of SFFAS 54.

Members also discussed the staff-proposed rescission of paragraph 17 of TR 20. Ms. Dewhirst suggested that staff could proceed with referring the implementation issues to the Board, as recommended in the materials, and the Committee could then take additional action during the next round of updates to TR 20 based on staff consultations with the Board and additional research. Members agreed to not make any further changes to paragraph 17 for the time being.

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

The Committee will review a second pre-ballot draft that will be circulated in the coming days. Members will be provided with a 48-hour review period for the second pre-ballot. The second pre-ballot will reflect additional basis for conclusions discussion based on key matters discussed by the Committee at the meeting.

After addressing any outstanding items identified during the second pre-ballot distribution, staff will release a ballot copy and ballots to members.

Mr. Perry requested that members provide their completed ballots as expeditiously as possible.

Ms. Valentine noted that once staff receives two-thirds approval from the Committee, staff will release a proposed TR review copy to the Board for its review. Staff will likely request affirmative approvals from the Board with hopes of issuing a final TR as close to September 30 as possible.

Mr. Perry summarized the due process uncertainties affecting the approval of the proposed TR in the coming weeks. He noted that the integration of these amendments into TR 20 in the 2023 Handbook update could be affected by these due process uncertainties; especially if the final TR is not approved by early October.

Adjournment

Ms. Valentine thanked the Committee for a productive meeting.

The meeting adjourned at 4:35 PM.