

Memorandum

Leases

August 30, 2023

To: Members of the AAPC

From: Ricky A. Perry, Jr., Assistant Director

Thru: Monica R. Valentine, Executive Director / AAPC Chair

Subject: Analysis of comment letters - amendments to TR 20 (Attachment A)

INTRODUCTION

The briefing material includes staff's analysis of comment letters received on the AAPC's proposed updates to leases implementation guidance. Staff's analysis is intended to support members' review of comments and not a substitute for reading them.

REQUEST FOR FEEDBACK BY SEPTEMBER 7

Prior to the September AAPC meeting, please review all comments (Reference Material, item 1), along with the staff analysis and recommendations (attachments A-B). If possible, respond to the ensuing questions with your preliminary feedback by September 7th.

Please provide responses to Mr. Perry at PerryRA@fasab.gov, with a cc to Ms. Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending AAPC feedback and discussions, staff intends to distribute ballots, ballot the proposed TR, and submit the proposed TR to the Board. For the most recent project plan, see attachment C.

ATTACHMENTS

- A. Staff analysis and recommendations
- **B.** Pre-ballot draft TR, marked since exposure draft with staff-recommended edits
- **C.** AAPC sub-project plan (approved in February; updated)
- **D.** Leases overall project plan

REFERENCE MATERIAL

- 1. Compendium of comment letters
- 2. SFFAS 54: Leases
- 3. SFFAS 60: Omnibus Amendments 2021, Leases-Related Topics
- 4. SFFAS 61: Omnibus Amendments 2023, Leases-Related Topics II
- **5.** Technical Release 20: *Implementation Guidance for Leases*
- **6.** FASAB Rules of Procedure
- 7. AAPC Operating Procedures



Staff Analysis Attachment A

August 30, 2023

CONTEXT

The AAPC received 19 responses from the following sources:

	FEDERAL	NON-FEDERAL	TOTAL
Associations		2	2
Auditors/Accounting Firms			
Preparers and financial managers	17		17
Individuals			
Others			
Total	17	2	19

Members are asked to read the comment letters prior to reviewing the staff analysis. Comment letters are posted at https://fasab.gov/leases-implementation-guidance-updates/. Respondents are identified in the order their letters were received.

SUMMARY OF ANALYSIS

No changes recommended by staff based on respondent feedback

Minor change(s) recommended by staff based on respondent feedback

Changes recommended by staff based on respondent feedback

Change recommended by staff based on other factors

TR 20 par.	TR 20 topic area	GASB/FASB source	Att. B par.
78 √	Multi-component contracts	SFFAS 61, par. 6-10	5
8A ★	Scope and definitions	ASC 842-10-55-55:62	
8B √	Scope and definitions	ASC 842-10-55-55:62	6
11A √	Scope and definitions	2020-1, par. 4.6	_
17/	Scope and definitions	Staff research	7
24A √	Lease term	2023-1, par. 4.1	8
32A ≤	Short-term leases	2020-1, par. 4.11	9
52A ★	Lessee rec. and measurement	2023-1, par. 4.4	10
75A ★	Lease incentives and concessions	2021-1, par. 4.17	11
25✓	Lease term	2023-1, par. 5.1	12
91★	Subleases	Staff research	13

ANALYSIS

Analysis of Responses to Question for Respondents (QFR) #1:

QFR 1. Do you generally support the proposed conforming amendment in paragraph 5? Please explain the reasons for your position. Please also explain any alternatives or additional candidates that you propose and the authoritative basis for such alternatives.

Paragraph 5 - proposed conforming amendments to paragraph 78 of TR 20 V

Respondents generally supported the proposed conforming amendment to paragraph 78 of SFFAS 54.

Two respondents (#5, 9) recommended providing reference to OMB Circular A-94, Guidelines for Discount Rates for Benefit-Cost Analysis of Federal Programs. Such a reference would also be incongruous with SFFAS 61 amendments to SFFAS 54 and the discount rate selection and methodological flexibilities provided by those amendments. Staff notes that TRs may only provide guidance based on existing Statements and Interpretations under the Board's rules of procedure.

Staff Recommendation #1

Staff recommends no further changes to the conforming amendments to paragraph 78 of TR 20 (see attachment B, par. 5).

Question for the AAPC #1:

1. Do members agree with staff recommendation #1? Please explain.

Analysis of Responses to QFR #2:

QFR 2. Do you generally support the proposed updates (that is, new questions and answers) in paragraphs 6-10? Please explain the reasons for your positions, the paragraph number(s), and/or topic areas of the proposals that are related to your positions. Please also explain any alternatives you propose and the authoritative basis for such alternatives.

Paragraph 6 – adding proposed paragraph 8A to TR 20 ★

Respondents generally agreed with this proposed paragraph; however, staff identified several respondents (#1, 4, 7, 9, 11, 15) requesting that the AAPC consider further clarify matters discussed under the proposed paragraph. Staff partially agrees with the feedback provided by some of these respondents requesting clarity.

One respondent (#11) found that the specification criteria did not appear to be particularly relevant to the answer. Staff believes that inclusion of the adverb "relatedly" as a means of expressing a relationship is helpful to readers. Both of these criteria are relevant to the answer, as the specification <u>and</u> control criterion are not met due to the contract providing general network services without control of physically distinct dark fibers or capacities over specifically identified routes. The relationship is re-emphasized later in the answer paragraph.

One respondent (#7) suggested that the AAPC consider providing additional questions and answers on control modeled after Financial Accounting Standards Board (FASB) implementation guidance for Accounting Standards Codification® (ASC) Topic 842. The AAPC may consider such candidates at a later time during the next round of updates to TR 20. This approach allows the Committee to proceed with finalizing this pronouncement, and it also allows staff to subsequently research and develop additional recommended guidance candidates in the next round of research under the project plan (see attachment D).

One respondent (#7) recommended replacing "right to use" with "data transmission services" to clarify that the contract is for services. The question in paragraph 8A is intended to highlight similarities of the contract in the scenario to a lease, while the answer is intended to clarify and further explain the relevant criteria resulting in the contract not meeting the definition of a lease. Contracts and the relevant factors are not always spelled out explicitly. In this way, the draft guidance is helpful and relevant to users as designed. The "right to use" phrasing is also consistent with the analogous FASB implementation guidance example of a contract that does not contain a lease (see ASC 842-10-55, par. 60-62).

One respondent (#7) also requested that paragraph 8A clarify the relationship of the answer to paragraph 4 of SFFAS 54, which provides that the lease definition "excludes contracts or agreements for services, except for those that contain both a lease component and a service component (par. 73 [of SFFAS 54])." Staff concurs with this proposed revision. See related tracked change edits at attachment B, par. 6.

Paragraph 6 – adding proposed paragraph 8B to TR 20 V

Respondents generally agreed with this proposed paragraph. Staff does not recommend any changes to the paragraph.

One respondent (#7) requested further edits to the paragraph. Staff disagrees with the edits, as they are generally redundant or technically hazardous. Specifically, the respondent recommended including language indicating that the primary purpose of the contract is a lease rather than a service. Such language does not agree to SFFAS 54, paragraphs 72-77, which provide that lease and nonlease components should be accounted for separately (without regard to primary purpose). Service components of contracts with a dark fiber leases would, therefore, be separately accounted for as services, if present.

Paragraph 6 – adding proposed paragraph 11A to TR 20 V

Respondents generally agreed with this proposed paragraph. Staff does not recommend any changes.

Paragraph 7 – rescinding paragraph 17 of TR 20 /

See analysis of QFR 3 responses and staff recommendation #3 in the section below.

Paragraph 8 – adding proposed paragraph 24A to TR 20 V

Respondents generally agreed with this proposed paragraph (originally par. 7 in the ED). Staff does not recommend any changes.

Paragraph 9 – adding proposed paragraph 32A to TR 20 z

Respondents generally agreed with this proposed paragraph (originally par. 8 in the ED).

One respondent (#1) duly noted that "all periods" should be changed to "certain periods" to align with paragraph 14 of SFFAS 54. Staff concurs. See related tracked change edits at attachment B, par. 9.

Paragraph 10 – adding proposed paragraph 52A to TR 20 ★

Respondents generally agreed with this proposed paragraph (originally par. 9 in the ED).

Staff concurs with the suggestion to clarify the use of the interest method provided by one respondent (#7). See related tracked change edits at attachment B, par. 10.

Paragraph 11 – adding proposed paragraph 75A to TR 20 ★

Respondents generally agreed with this proposed paragraph (originally par. 10 in the ED).

Staff concurs with the suggestion of one respondent (#7) to cite SFFAS 54 criteria regarding "systematic and rational" amortization. See related tracked change edits at attachment B, par. 11.

Staff Recommendation #2:

Staff recommends revising proposed paragraphs 8A, 32A, 52A, and 75A based on respondent feedback, rescinding paragraph 17 of TR 20, and no further changes to proposed paragraphs 8B, 11A, or 24A. See tracked changes in attachment B

Question for the AAPC #2

2. Do members agree with staff recommendation #2? Please explain.

Analysis of Responses to QFR #3:

QFR 3. Do you generally support the clarifying amendments / technical corrections in paragraph 11-13? Please explain the reasons for your positions, the paragraph number(s), and/or topic areas of the proposals that are related to your positions. Please explain any alternatives or additional clarifying amendments / technical correction candidates that you propose and the authoritative basis for such alternatives and/or candidates.

Paragraph 7 (originally par. 11 in the ED) – rescinding paragraph 17 of TR 20

Respondents generally agreed with the proposed amendment to paragraph 17 of TR 20. Notwithstanding, in further analyzing the proposal, staff has determined that further clarifications of various SFFAS 54 provisions are necessary to comprehensively address what types of expenses are included in "annual lease expense" disclosures required by paragraphs 37.e and 54.e of SFFAS 54.

Staff determined that such further clarifications are likely to be more consistent with the purposes and uses of Interpretations of Federal Financial Accounting Standards (Interpretations) under the Board's Rules of Procedure. Staff views SFFAS 54 guidance as holistically sufficient for completing these disclosures, however, further interpretive guidance would assist in the implementation of SFFAS 54. Staff believes that interpretive analysis of certain paragraphs of SFFAS 54 may be necessary. An Interpretation pronouncement type would enable the Board to provide added expense classification guidance on the "leases-related operating costs," cited in paragraph 27 of SFFAS 54, including maintenance, utilities, taxes, and insurance in a manner that the AAPC does not have the authority to perform. Such actions would also be responsive to requests of certain respondents to further expand the proposed paragraph 17 guidance.

The AAPC operating procedures require that the AAPC not accept issues that may more require formal Interpretations. The operating procedures provide that the AAPC is to refer such issues to the FASAB for further action. The AAPC will have no further responsibility for such issues.

Paragraph 12 – amending paragraph 25 of TR 20 <a>

Respondents generally agreed with this proposed amendment. Staff does not recommend any further changes.

Paragraph 13 – amending paragraph 91 of TR 20 ★

A majority of respondents generally agreed with this proposed amendment. Several noted that the ED proposal comports with SFFAS 54.

One respondent (#11), recommended clarifying edits to the amendment. When agency ABC is acting in an agent capacity, agency ABC would receive some consideration for the *services it provides* to agency XYZ as an agent. The amendments proposed by the respondent clarify that that agency ABC does not receive *rent consideration*. Staff concurs. See related tracked change edits at attachment B, par. 13.

Some respondents expressed concerns about the guidance proposed; however, these concerns were of a nature that cannot result in further AAPC action or changes to the guidance. The AAPC does not have the authority under the rules of procedure to amend SFFAS 54, provide guidance that conflicts with SFFAS 54, or make revisions to satisfy the concerns noted by some respondents.

Staff Recommendation #3:

Staff recommends rescinding paragraph 17 of TR 20 (see tracked changes in attachment B) and referring the disclosure issue of expenses included in "annual lease expense" to the Board for further action.

Staff Recommendation #4:

Staff recommends minor revisions to the proposed amendment to paragraph 91 based on respondent feedback (see tracked changes in attachment B), with no further changes to proposed paragraph 25.

Questions for the AAPC #3-4

- 3. Do members agree with staff recommendation #3? Please explain.
- 4. Do members agree with staff recommendation #4? Please explain.

Analysis of Updates to the Basis for Conclusions:

Staff implemented the following updates to the basis for conclusions section of Attachment B.

Added paragraph A9, which summarizes outreach to potential respondents. This
paragraph is based on internal FASAB staff policy manual and not generally
editable

- Added paragraph A10, which summarizes the improvements, clarifications, and revisions to the guidance based on respondent feedback.
- Added paragraph A11, which summarizes the Committee's rationale for rescinding paragraph 17 of TR 20.
- Added a placeholder for paragraph A12, which will summarize the finalization of the proposal, pending Committee balloting, submission to the Board, and Board review.

The above updates are generally consistent with the style and approach of the Committee in the basis for conclusions in TR 20.

Staff will expand or revise the basis discussion on any key matters discussed by the Committee in September and the feedback provided by members on these updates.

Question for the AAPC #5

5. Do members agree with the above-summarized updates to the basis for conclusions in attachment B?

Please provide any suggested revisions and identify any key AAPC decisions or conclusions that you preliminarily believe warrant further discussion in the basis for conclusions.

Staff Recommendation #5:

Pending AAPC discussions and finalizing changes in response to questions 1-5 above, staff recommends proceeding to ballot and submission of a TR proposal to the Board for its review at the October 2023 meeting.

The AAPC approval will be contingent upon the Board's concurrence with the issue referral under staff recommendation #3. Ballots would explicitly indicate the approval contingency. The contingency is necessary because further revisions to paragraph A11 may be necessary and require re-balloting by the Committee in the event that the Board does not concur with the issue referral or its basis. As always, under the Rules of Procedure, the Board may also return the proposed TR to the Committee for other reasons.

Question for the AAPC #6

6. Do members agree with staff recommendation #5? Please explain.