

Accounting and Auditing Policy Committee (AAPC) Meeting Minutes

November 16, 2023, 1:30 PM ET

Virtual via Zoom for Government

Attendance

Members

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

Absent: Mr. Prasad Kotiswaran (CFOC)
Ms. Kim Laurance (CFOC)
Ms. Sarah Nelson (CIGIE)

Staff

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

Mr. Jason Kirwan, General Counsel

Welcome, Administrative Matters

The meeting began at 1:40 PM. Ms. Valentine began the meeting by welcoming members.

Ms. Valentine called roll.

Ms. Valentine gave an overview of the meeting topics: proposed omnibus amendments to several Technical Releases (TRs) and the public-private partnerships (P3) project plan.

Proposed Omnibus TR Amendments

Messrs. Perry and Williams presented an overview of attachment B – Omnibus Technical Release, which recommends amendments to TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*; TR 16, *Implementation Guidance for Internal Use Software*; TR 20, *Implementation Guidance for Leases*; and TR 21, *Omnibus Technical Release Amendments 2022*.

Amendments to footnote 5A of TR 10 and paragraph 4 of TR 21

For the first recommendation, Mr. Perry explained that staff had identified the need for conforming amendments to footnote 5A of TR 10. The amendments would conform the footnote with relevant portions of SFFAS 6, *Accounting for Property, Plant, and Equipment*, paragraph 18, as amended by SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*, paragraph 35. The Committee agreed with the recommendation.

Amendments to TR 16 and TR 20

Mr. Williams explained that one of the recommended TR 16 amendments would remove reference to SFFAS 5, *Accounting for Liabilities of the Federal Government*, when describing the scope of TR 16. After TR 20 removed all software license guidance that relied on capital lease guidance, TR 16 no longer clarifies SFFAS 5 guidance.

Mr. Williams then explained that the other recommended amendments to TR 16 would effectively restore prior guidance on perpetual software licenses, including perpetual software licenses that are part of cloud-computing arrangements and shared services, that TR 20 rescinded. He explained that due to the issuance of SFFAS 54, *Leases*, TR 20 amended TR 16 to remove software license guidance that applied to the now rescinded capital lease guidance in SFFAS 5 and SFFAS 6 creating a gap in software license guidance. However, TR 20 removed guidance for perpetual software licenses that was based on SFFAS 10, *Accounting for Internal Use Software*, and did not rely on the capital lease guidance that term-based software license guidance applied to.

Mr. Williams stated that the proposal would not update or add any new guidance for software licenses beyond what previously existed in TR 16. He stated that the Board plans to deliberate new reporting guidance for software licenses, cloud computing, and shared services as part of the software technology project. However, staff believes it is prudent to restore prior perpetual software license guidance in TR 16 in the meantime so that the gap in software license guidance is not greater than it needs to be. The Committee agreed with staff's recommendations.

Mr. O'Neill suggested adding "perpetual" to paragraphs 29 and 32 to make it clearer to preparers that the guidance would now only address perpetual software licenses. The Committee agreed with this revision.

Mr. O'Neill suggested amending paragraph 27A with the term "appropriate" instead of "existing" when addressing capitalization thresholds for perpetual software licenses. However, Mr. Williams voiced concern that the suggestion could change the Board's intent in the original guidance and that preparers had not notified staff about any difficulty applying that part of the guidance. Ms. Valentine stated that it was ultimately up to reporting entities to determine appropriate capitalization thresholds. The Committee did not implement this suggested revision.

Final Thoughts and Next Steps

Mr. Perry stated that staff would refer to the attachment B analysis to draft proposed language in the basis for conclusions section and would recommend a pre-ballot exposure draft (ED) at the February 2024 AAPC meeting. Mr. Perry stressed that the ED should make clear to respondents that the proposed TR 16 amendments would only reinstate previous guidance. Mr. O'Neill suggested that the effective date of the ED should be effective as of October 1, 2023, instead of being effective upon issuance because the reporting period requirement has already begun, and the TR 16 proposals would reinstate preexisting requirements. Staff agreed with this and will update the effective date in the pre-ballot ED.

Public-Private Partnerships Project Plan

Messrs. Robinson and Savini presented an overview of attachment A – P3 Project Plan. Mr. Savini began with an overview of the project plan as generally approved by the Board and then opened the session for discussion. Committee members raised several points, some of which will require task force study and review:

- Review recent P3 disclosures to determine if they meet the intent of SFFAS 49. The AAPC should keep cost/benefit considerations in mind throughout the review.
- Consider materiality in connection with cost/benefit considerations.
- Ensure that decisions concerning materiality are not predicated on non-representative P3 reporting (such as energy savings performance contracts) and are kept under preparer-auditor purview (as per the Board's historical practice).

- Parse the implementation guidance between authoritative and non-authoritative guidance.
- Consider highlighting or possibly linking paragraphs 6-8 of SFFAS 49 to the risk-based characteristics at paragraphs 20-21.

Additional member comments included that materiality can be qualitatively important given a program's visibility, such as Congressional interests, and that some risks may be mitigated by contract (Federal Acquisition Regulation) clauses. Two members expressed concern with the level of guidance needed for Implementation (level C GAAP, deliberated by the AAPC) and the potential need for amended guidance to SFFAS 49 (level A GAAP),

One member commented that there is a need for clarification and implementation guidance.

Mr. Robinson provided comments as a staff reviewer, noting that the proposed draft Technical Release was structured in accordance with prior TRs to include all required sections and written in accordance with FASAB's style guide. Mr. Robinson noted that the task force may consider developing a case study specific to SFFAS 54, *Leases*.

The Committee generally agreed with staff's planned project approach.

Next Steps

Staff will (1) resume task force development of the draft TR for subsequent AAPC review, with an anticipated May 2024 AAPC briefing, and (2) attempt to distinguish authoritative/non-authoritative guidance as well as how best to communicate said guidance; for example, level A, B, and/or C.

Adjournment

Ms. Valentine thanked the Committee for its input on the topics presented.

The meeting adjourned at 3:35 PM.