

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
April 26-27, 2022
Zoom for Government

Tuesday, April 26, 2022.....	1
Attendance	1
Administrative Matters	2
• Approval of Minutes.....	2
• Updates and Clippings.....	2
Agenda Topics	2
• Climate Staff Paper	2
• Leases – Reimbursable Work Authorizations – Educational Session / Research and Development Update.....	3
• Steering Committee Meeting.....	6
Adjournment	6
Wednesday, April 27, 2022	6
Agenda Topics	6
• Management’s Discussion and Analysis	6
• Software Technology	10
• Leases – Reimbursable Work Authorizations – Board Discussion	18
• Leases – Omnibus.....	20
Adjournment	21

For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by topic; references to these topics in the minutes are hyperlinked.

Tuesday, April 26, 2022

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Messrs. Scott (chair) and Bell, Ms. Bronner, Mr. Dacey, Ms. Harper and Johnson, and Messrs. McNamee, Patton, and Smith. The executive director, Ms. Valentine, and general counsel, Mr. Kirwan, were also present throughout the meeting. Ms. Valentine conducted a verbal roll call of the members.

Administrative Matters

- **Approval of Minutes**

The Board approved the February meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Scott asked the members if there were any comments on the clippings. No members had comments.

Ms. Reese, Governmental Accounting Standards Board (GASB) senior project manager, provided a brief overview of the recent activities of the GASB.

Ms. Reese noted that the GASB was in the process of finalizing five documents. The GASB expects to issue final pronouncements on the conceptual framework for disclosures, compensated absences, omnibus, and accounting changes and error correction projects by early summer. The Board also expects to release for public comment the risk and uncertainty disclosures exposure draft in June. In addition, GASB is working on a financial reporting model reexamination project, a revenue and expense recognition project, and a project on management's discussion and analysis (MD&A). GASB is continuing to review the feedback on the revenue and expense preliminary views document.

Mr. Scott thanked Ms. Reese for keeping the Board informed of the GASB's activities.

Mr. Scott noted the extensive outreach efforts in the past two months from both Board members and staff. He also congratulated the FASAB staff on a very successful virtual annual update, which included close to 700 attendees.

Ms. Valentine introduced FASAB's new general counsel, Jason Kirwan. Mr. Kirwan is an assistant general counsel with the Government Accountability Office. Mr. Juan Garay will continue to support Mr. Kirwan on FASAB matters. Members and staff welcomed him. Mr. Kirwan expressed that he was looking forward to working with FASAB members and staff.

Agenda Topics

- **Climate Staff Paper**

Ms. Gilliam, assistant director, introduced [topic A](#) for the Board to review the staff paper titled *Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting*. This review was in preparation for finalizing the document and posting it to the website.

Ms. Gilliam reviewed the following changes from members' preliminary edits:

- Staff replaced “federal financial statements and related information” with “federal financial reports” in the introduction section.
- Staff removed “catalog” and “every” to read “...does not attempt to address potential climate-related scenarios...” in the technical inquiries section.
- Staff updated the lead-in sentence in the terms section to emphasize that these are not definitions.
- Staff revised the introduction paragraph leading into the list of documents in the Relevant Statements of Federal Financial Accounting Standards section.

During the meeting, members provided edits to the terms section. Staff will incorporate these edits before posting the staff paper to the website:

- Extend the underline to include “only for the” in the lead-in sentence.
- Add a footnote to state that the Board only establishes definitions through authoritative pronouncements.
- Add “future” before “federal financial statements” for the term climate-related financial risk.

One member asked about removing “that have occurred” from the description of climate-related events. Ms. Gilliam explained that the phrase is necessary because events must have occurred to cause an accounting transaction. Other minor edits were also noted by members.

Mr. Scott took a poll to determine which members did not object to posting the climate staff paper to the FASAB website. No members objected. Ms. Gilliam said that staff would post the document to the website within two weeks.

- **Leases – Reimbursable Work Authorizations – Educational Session / Research and Development Update**

Mr. Perry, senior analyst, introduced the following panelists for an educational briefing (slides are included at [topic B, attachment 2](#)) and research/development update on reimbursable work authorizations (RWAs) related to leases:

- Pete Christake, Deputy Director, Office of Realty Management, Social Security Administration (SSA)
- Christi Dewhirst, Senior Financial Management Analyst, General Services Administration (GSA)

- Edward Gramp, Director, Financial Reporting Division, GSA
- Melissa Sizemore, Partner, Cotton and Company (representing the Department of State, Office of the Chief Financial Officer)

Messrs. Casto and Perry, FASAB fellow and senior analyst, respectively, joined the educational briefing as panelists as well.

Ms. Dewhirst reviewed the definition and purposes of RWAs and the underlying legislative authorities permitting GSA's Public Buildings Service to perform reimbursable work on behalf of requesting customers, including assets leased to other federal entities.

Ms. Dewhirst noted that GSA uses RWAs to provide general "above-standard" goods and services to its customers on a reimbursable basis. In the context of leases, such services can be improvements, alterations, acquisitions of, and other betterments to property, plant, and equipment (PP&E) assets underlying intragovernmental occupancy agreements between GSA and other federal reporting entities. These improvements go beyond the tenant improvement allowances provided for under occupancy agreements.

Ms. Dewhirst elaborated that tenant improvement allowances are typically used to get space functional for customer agencies. When additional requirements exceed this allowance, customers fund these through RWAs. The nature of the reimbursable work can vary widely depending on the needs of the particular customer.

Ms. Dewhirst posited that there has been and would likely continue to be ambiguities in accounting guidance (and intragovernmental elimination differences as a result) stemming from GSA deferred revenues when customers do not recognize reciprocal assets in such situations.

SFFAS 54, *Leases*, did not contemplate RWAs. Without RWA guidance to supplement existing Statements, recognition and measurement of intergovernmental balances, revenues, and expenses will likely continue to be inconsistent.

Ms. Sizemore provided a few examples of RWAs between GSA and the State Department. In these examples, GSA, in consultation with the State Department, purchased domestic property (or portions thereof) on behalf of the department. Because the State Department's authority to purchase domestic property is limited, it provided GSA with funding for acquisition and additional improvements while GSA held title to the underlying domestic property. Ms. Sizemore concurred with the concerns expressed by Ms. Dewhirst regarding the need for additional accounting criteria in these areas. GSA and the State Department have reached inconsistent conclusions on the appropriate accounting for certain RWA agreements because of the lack of guidance.

Mr. Christake noted that SSA engages the lease procurement process at GSA, with GSA representing the agency's interests in the private sector when negotiating occupancy agreements tied to reimbursable work that may be performed on underlying

assets owned by original lessors in the private sector. He provided insightful examples of the variety of reimbursable goods and services that are performed on underlying assets subleased or leased to SSA by GSA, such as security and infrastructure improvements necessary to meet data center requirements, modernizations or acquisitions of spaces, and other minor improvements due to specific operational needs.

Mr. Gramp explained that occupancy agreements and RWA agreements are interrelated and inseparable. While they have different scopes of work and specific requirements, the underlying leased asset is the same. GSA's RWA agreements and performance obligations are also tied to the occupancy agreements to protect the investments made by its customers for the reimbursable work on the underlying asset being leased.

Mr. Gramp also expressed concerns identified by the RWAs working group related to prepaid rent guidance under SFFAS 54. Some may view RWAs as being similar to prepaid rent; however, RWAs have a specific scope of work, and thus practitioners may not view the related funds as being "prepaid rent" (as described in par. 27-28 of SFFAS 54).

In response to a question from a Board member, Ms. Dewhirst noted that GSA earns about \$2 billion per year in revenue from RWAs, with approximately \$2 billion in new RWAs accepted per year. GSA has about \$4-5 billion in unfilled customer orders associated with accepted RWAs where work is ongoing. There are approximately 5,000 current RWAs, some of which are leases-related.

A Board member asked the extent to which panelists believe the Government Invoicing (G-Invoicing) project at Treasury's Bureau of the Fiscal Service may facilitate the elimination of these intragovernmental differences.¹ Ms. Dewhirst responded that while G-Invoicing will serve as a tool for agencies to use, the accounting guidance must still come from FASAB.

Messrs. Perry and Casto summarized the additional guidance needed when implementing paragraphs 26-38 (intragovernmental leases) of SFFAS 54 when RWAs are tied to such intragovernmental leases. Mr. Perry noted that these often meet the definition of agreement combinations under paragraphs 78-79 of SFFAS 54. As a result, FASAB guidance needs to provide sufficient guidance when accounting for these agreement combinations under SFFAS 54 and other existing guidance that may be applicable.

¹Government Invoicing (G-Invoicing) is the long-term sustainable solution to improve the quality of intragovernmental transactions. G-Invoicing is being designed and implemented to support the Bureau of the Fiscal Service's efforts to improve the quality and reliability of intragovernmental buy/sell data.

- **Steering Committee Meeting**

The Committee reviewed budget estimates for fiscal year 2023. Committee members discussed potential incremental funding to support future staffing and will continue the discussion at the next meeting.

Adjournment

The Board meeting adjourned for the day at 5:00 p.m.

Wednesday, April 27, 2022

Agenda Topics

- **Management's Discussion and Analysis**

Ms. Gilliam introduced [topic C](#), MD&A, by thanking the members for providing preliminary comments. The goal for the session was to gain Board consensus on substantial issues. Staff will present the updated draft exposure draft, including updates to the basis for conclusions, to the Board for an editorial review at the June meeting.

Question 1 – Do members agree with the title or have any comments or edits?

Members discussed when the terms “amend,” “rescind,” or “replace” are appropriate to use in SFFAS titles. Staff explained that a title contains “amend” when portions of a previous SFFAS are updated. A title contains “rescind” when an SFFAS is no longer valid and will be removed from the Handbook. A title should contain “replace” and “rescind” when a new SFFAS will entirely replace a previous one. Members agreed that the term “rescind and replace” was appropriate for this title because this proposal would replace SFFAS 15, *Management's Discussions and Analysis*, in its entirety.

Members approved the title of the proposal.

Question 2 – Which option—“narrative” or “story”—do members prefer to help change MD&A reporting behaviors?

A common Board theme is changing preparers' behavior for presenting information in MD&A. Members' reflected on this theme throughout this session to help determine if terms and content support this vision.

Members preferred the term “narrative” instead of “story” because “story” is part of the definition for narrative. Using the word “story” may imply that the information could be fact or fiction. In addition, some may consider a story less formal.

Members discussed whether to keep the words “holistic” and “streamlined.” Members decided to remove “holistic” because, during the February 2022 meeting, members had agreed to use “balanced, integrated, and concise” to describe how the Board wanted

preparers to present information in the MD&A, and the word “integrated” is included in the definition for holistic. Therefore, “holistic” does not add any additional guidance in changing the behavior for how preparers present information in MD&A. Members reached a consensus with all members agreeing to remove the term “holistic.”

The Board discussed using the term “streamlined” in the document. Most members agreed that a “streamlined narrative” could change preparer behavior by steering them away from segregating information into specific sections. Preparers have adopted this practice because of guidance in SFFAS 15. A few members believed “efficient” could be a substitute but instead agreed to include that term in a new explanatory paragraph. Members reached a consensus, with most members agreeing to retain the word “streamlined” to describe “narrative.” MD&A will be described in the document as a “streamlined narrative that is balanced, integrated, and concise.” Staff will make this change consistently throughout the document.

Question 3 – Do members agree with the executive summary or have any comments or edits?

Members discussed the term “incorporated” in reference to how the Board has used Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management’s Discussion and Analysis*, to develop the proposal. Staff’s use of the word may have caused some confusion among members. Ms. Gilliam explained that the proposed MD&A standards do not incorporate SFFAC 3 but are based on an analysis of the reporting objectives in SFFAC 1, *Objectives of Federal Financial Reporting*, and SFFAC 3. The results of this analysis helped members to map out the MD&A objectives and vision. Members reached a consensus to use the phrase “based on” for why and how the Board utilized SFFAC 3 to develop this proposal.

The Board made other suggestions to update the executive summary:

- Members noted that the executive summary should explain how the Board believes this proposal improves MD&A in relation to the information utilized from the analysis of SFFAC 3, SFFAS 15, and the results of the pilot.
- Members wanted to understand why there was so much information on performance in the executive summary. Ms. Gilliam explained this was to convey the Board’s concern about changing preparers’ focus from including Government Performance and Results Modernization Act reporting in MD&A to what agencies had achieved in relation to costs. One member recommended moving this discussion to the paragraph titled *Presenting Information in MD&A*. Other members agreed.

Questions 4 – Do members agree with the questions and scope sections or have any comments or edits?

- Members agreed to add additional questions to ensure that all guidance was included to produce a streamlined narrative that is balanced, integrated, and concise.
- Members agreed to update the scope section by merging the fourth paragraph with a new paragraph to explain what “balanced, integrated, and concise” means when preparing the MD&A.

Questions 5 – Do members agree with the updates to the paragraph 5 title and content or have any comments or edits?

Members agreed to include a discussion about SFFAC 3 in the fifth paragraph but not in the title. The basis for conclusions should also include a discussion about why and how the Board utilized SFFAC 3 for developing the proposal, along with how the proposed *Concepts Omnibus* will rescind it. Members also agreed that, because the Board will rescind SFFAC 3, this proposal should not reference any specific text.

Question 6 – Do members agree with the updates to paragraph 6 or have any comments or edits?

Members reached a consensus that standards should be in a statement format instead of a question format.

Members agreed to add an additional paragraph to explain what the Board expects from a balanced, integrated, and concise MD&A in the section titled *Information Discussed and Analyzed in MD&A*.

Members made the following agreements about the new paragraph:

- MD&A should be considered complete only when it adheres to all of the proposed guidance.
- The phrase “vital few matters” should help to explain the word “concise.”
- The word “efficient” should help to explain the word “streamlined.”
- The phrase “non-financial information” should help to explain “balanced.”
- Non-technical content should help to provide users with an easy-to-read MD&A.
- The word “plans” should address short- and long-term actions to support opportunities, mitigate risks, or correct any problems or issues; therefore, the phrase “current and future” is not needed.
- Financial position and condition should be explained without a formal definition.

Members reached a consensus to restructure the sixth paragraph to lead with mission, organization, and performance results as context for financial position and condition.

The Board also agreed to clarify the guidance for systems, controls, and compliance in paragraphs 6e-f. Members gave staff the following feedback:

- Do not encourage a boilerplate response.
- The Board may want to not only include the effect on reliable financial reporting, but also the effect on the success of programs and performance.
- A reference to the assurance letter required in the MD&A by the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, may be sufficient to explain compliance with the Federal Financial Management Improvement Act, the Federal Managers Financial Integrity Act, and information security controls.
- Any reference to non-compliance should be generic.
- Keep the focus on reducing the agencies' burden of reporting.

The Board agreed to clarify the guidance for performance in paragraph 6d. Members gave staff the following feedback:

- Tying performance to net cost is too narrow. Net cost is an annual measurement, and project/program performance can span many reporting periods.
- Focus instead on significant performance achievements and challenges relative to costs.
- Clarify that this guidance should only be for agency reporting entities and not the consolidated financial report of the U.S. Government (CFR).

The Board agreed to clarify the guidance for financial condition in paragraph 6f-. Members gave staff the following feedback:

- The proposed guidance is too narrow; the standards should not focus solely on agencies that are required to do sustainability financial reports.
- Remove the specific reference to "financial condition" as it will be discussed in the new paragraph.
- The guidance should focus on entities with social insurance programs, business-type operations, and significant stewardship investments.

- The CFR's statements of long-term fiscal projections may address financial condition, so it would not need to be in the government-wide MD&A.
- The guidance should not duplicate information already required in MD&A by other standards.

Question 7 – Do members agree with updates to paragraph 7 or have any comments or edits?

Question 8 – Do members agree with updates to the basis for conclusions or have any comments or edits?

The Board did not have time to discuss questions 7 and 8. Staff will provide updates based on the above decisions at the June 2022 meeting.

The meeting adjourned for lunch.

- **Software Technology**

Mr. Williams, senior analyst, introduced [topic D](#) by reminding the Board that the scope for the software technology project consists of four major categories: cloud-service arrangements, shared services, internal use software (IUS) updates, and other software technology. He explained that staff plans to address each scope category individually with the Board, starting with cloud-service arrangements.

Mr. Williams then explained that the purpose of the session was to discuss characteristics of cloud-service arrangements along with an asset guidance framework for which to apply the characteristics. The framework consisted of previous asset guidance decisions to assist the Board when deliberating whether cloud-service arrangements could represent assets in the federal government.

Mr. Williams emphasized that the purpose of the session was to introduce the Board to cloud-service arrangements and spark deliberations on how they could fit into a framework of already-established asset guidance. He clarified that staff would only request the Board's feedback on the cloud characteristics and the proposed framework during the session and would not request the Board to make an official decision on whether cloud-service arrangements could represent assets in the federal government.

Question 1 – Do members have any feedback on the proposed essential characteristics for cloud-service arrangements?

Mr. Williams described the definitions and characteristics of cloud-service arrangements that he had developed based on research and working group collaboration. He explained that many different terms could describe cloud-service arrangements, including cloud computing, hosting arrangements, and subscription-based information technology arrangements. He stated that, while staff had initially chosen to use cloud-

service arrangements as the working term, all of the various terms were considered synonymous for purposes of the discussion.

Mr. Williams then stated the current working definition for cloud-service arrangements:

- A cloud-service arrangement is a contract or agreement in which the customer has the right to access and use information technology resources provided and managed by a vendor on demand. These arrangements often occur on a subscription or term basis over the internet without the customer taking possession of the resource on its systems.

Mr. Williams explained that staff would continue to edit the working definition based on further research and suggestions. He then presented five cloud-computing characteristics established by the National Institute of Standards and Technology (NIST):

- On-demand self-service – Similar to changing the channel on a television, a consumer can acquire computing capabilities as needed without requiring human interaction with each service provider.
- Broad network access – Consumers can access the cloud capabilities from any location over the internet with a computer, tablet, or phone.
- Resource pooling – The cloud provider's computing resources are consolidated and streamlined to serve multiple consumers at one time with different resources assigned and reassigned according to consumer demand. The consumer generally does not know and does not need to know the physical location of the computing resource they are accessing.
- Rapid elasticity – Cloud providers can easily scale up and down the amount of computing resources delivered to the consumer based on the consumer's needs at any point in time.
- Measured service – Cloud providers are able to monitor and report consumer usage for purposes of billing and performance analysis.

Mr. Williams pointed out that the NIST established the cloud-computing characteristics in 2011 to help federal agencies adopt cloud computing in their operations as part of the White House's cloud first strategy. Due to the characteristics being somewhat dated, he initially intended to use the NIST characteristics as a starting point for discussions with information technology (IT) professionals from federal agencies and edit or expand upon the characteristics to apply to the present environment. However, after several discussions with federal IT professionals, it was apparent that federal entities still widely use and accept the NIST cloud-computing characteristics in the IT environment. Therefore, Mr. Williams recommended that the Board reference the NIST characteristics to describe cloud-service arrangements for financial reporting decisions moving forward.

Mr. Williams reminded the Board that staff was not presenting the cloud-computing characteristics for inclusion in an exposure draft yet. The purpose was to help the Board understand cloud-service arrangements so that members could make informed decisions when developing an exposure draft of financial reporting requirements for cloud-service arrangements in the future.

The Board overwhelmingly supported using NIST's cloud-computing characteristics for developing financial reporting guidance for cloud-service arrangements. Several members agreed with staff's observation that NIST's cloud-computing characteristics are widely used and accepted throughout the federal government and that it is practical to defer to the IT professionals when describing cloud-service arrangements.

One member questioned if the Board should also consider characteristics of cloud-service arrangements established by private cloud-service providers. The member supported using the NIST cloud-computing characteristics overall but suggested considering other sources as well, especially since the NIST characteristics were established in 2011 and cloud computing, and IT in general, evolves quickly. Mr. Williams generally agreed and replied that he had previously researched many sources, including private cloud-provider websites that describe and characterize cloud computing. He had not yet come across any other characteristics that provided substantial insight beyond NIST's cloud-computing characteristics but stated that it is important to keep an open mind to consider other sources as the project progresses. However, he reiterated his support for using the NIST characteristics since NIST established them specifically for federal agencies and they are still widely accepted.

Question 2 – Do members have any feedback on the asset guidance framework or the next steps?

Mr. Williams then presented an asset guidance framework that he had developed based on previously issued FASAB guidance. The framework depicted relationships between PP&E, IUS, and leases guidance to provide members a reference when considering where cloud-service arrangements fit into the overall framework of federal assets.

Specifically, the framework shows that PP&E and IUS asset guidance overlap in the sense that IUS guidance requires capitalizing an IUS asset if it meets the criteria for general PP&E because they are both utilized by federal entities to provide goods and services or support the mission of the entity. Additionally, the framework shows that PP&E and lease asset guidance overlap in the sense that a lease conveys the right to control the use of PP&E (the underlying asset) to another entity for a period of time. Finally, the framework shows that IUS and lease asset guidance overlap in the sense that the Board previously determined in IUS implementation guidance that cloud-service arrangements should follow lease reporting guidance if a license is associated with the agreement.

Mr. Williams caveated that the previous cloud-computing guidance applied to the old capital lease reporting guidance from SFFAS 6, *Accounting for Property, Plant, and Equipment*, and that the new SFFAS 54 guidance specifically scopes out software

licenses. Additionally, several federal entities had indicated that software licenses are not typically associated with cloud-service arrangements anyway. Nevertheless, the diagram offers insight into how the Board previously determined how cloud-service arrangements fit into the asset framework as a type of IUS that shares similarities to lease transactions.

Mr. Williams stated that the primary takeaway from the asset guidance framework was that previously issued guidance, in certain circumstances, considered a cloud-service arrangement as a lease of another entity's software assets. Furthermore, some working group members had indicated that cloud-service arrangements often include both fixed- and variable-cost components, similar to leases. However, he caveated that cloud-service arrangements are not exactly like leases of tangible property. The fact that the underlying resource is intangible makes the control characteristic more complicated to evaluate. Additionally, working group members had stated that there is a wide array of service and payment terms associated with cloud-service arrangements. For example, agreements could span multiple years, apply as a pay-as-you-go approach from month-to-month, and could include purchasing cloud tokens or credits upfront for the consumer to apply to future service needs.

Mr. Williams suggested that it was most appropriate to approach cloud-service arrangements as lease-type transactions that provide a federal entity access to a provider's software technology resources for the federal entity to use as IUS for a specified period. However, he stated it was crucial that the Board first determine whether cloud-service arrangements should be characterized as assets in the federal government, as that would significantly influence ensuing reporting guidance. He recommended that the Board initially focus on whether cloud-service arrangements could meet the essential characteristics of an asset from SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.

Mr. Williams explained that SFFAC 5 states that to be an asset of the federal government, a resource needs to possess the following two characteristics:

- The resource embodies economic benefits and services.
- The federal government controls the economic benefits and services of the resource.

Mr. Williams further explained that, according to SFFAC 5, economic benefits and services of an asset could present as inflows of cash, goods, or services, and/or could assist the federal government achieve its objectives and mission to provide public services. Research and working group discussions indicated that cloud-service arrangements provide federal entities both economic benefits and services in many different ways, similar to the economic benefits and services that internally developed and purchased software provide. He added that cloud services are ubiquitous throughout private- and government-entity operations and missions.

For example, cloud-service arrangements could provide mission support to a federal entity by providing information and/or customer support to stakeholders in a more efficient and effective manner, often through websites. Additionally, common everyday job functions are performed using cloud-based resources, including email, virtual meeting platforms, contract management, payroll, timesheets, and personnel recruiting.

Federal entities could also achieve economic benefits in the form of cost savings when using cloud-service arrangements. For example, federal entities could access cloud-based IT resources on demand when needed, which allows for more efficient and cost effective operations that do not require the same upfront investment risk that internally developed software requires. Additionally, cloud-service arrangements could allow a federal entity to consolidate and utilize IT resources across the whole organization while minimizing duplicative resources and efforts that is often required for internally developed software. Finally, cloud-service arrangements could provide standardized platforms that enable federal entities to quickly provide IT solutions that are less costly to develop and maintain due to less complex coding and fewer skillset requirements.

Mr. Williams then addressed the second SFFAC 5 essential characteristic of an asset, control. He recommended more research and outreach to develop an informed opinion on whether federal entities can exercise control over the economic benefits and services of cloud-service arrangements in accordance with SFFAC 5. He further explained two primary issues regarding federal control of cloud-service arrangements:

- Whether consumers of cloud-service arrangements are able to deny or regulate access of the associated economic benefits and services to others
- Whether cloud-service arrangements provide consumers a specific agreed upon service or provide access to the economic benefits and services of an underlying IT asset

Mr. Williams informed the Board that there were differing opinions on whether cloud-service arrangements could meet the control criteria of a federal asset. Some working group members thought that federal entities could exert control over the economic benefits and services of cloud-service arrangements in a similar way as lease assets. However, other working group members stated that they did not think that cloud-service arrangements represent assets and likened them more to a utility or service contract. Additionally, some working group members pointed out that it is likely that some cloud-service arrangements could offer control over the benefits of an underlying IT resource while other arrangements do not, depending on the specifics of the agreement and model of cloud-service arrangement. Mr. Williams emphasized that to determine if cloud-service arrangements meet the control criteria, it would be crucial to deliberate whether consumers receive a recurring service from vendors or access the right to use underlying IT resources through the agreements.

Mr. Williams then provided various thoughts and theoretical examples of how cloud-service arrangements may or may not meet the control characteristic of an asset for

members to contemplate. For example, he pointed out that the Board meeting was occurring virtually using a cloud-based software as a service and asked members to contemplate whether they were receiving a service from the virtual meeting software provider or accessing the provider's underlying software resource.

Mr. Williams stated that it was particularly important to determine whether consumers were able to deny or regulate access of the cloud-service arrangement benefits and services to other parties. He posited that a consumer of a cloud service could not deny another party from also accessing the same cloud service through a separate agreement. However, he argued that a consumer could deny or regulate access of their specific agreed upon cloud service through security protocols, such as passwords and user identities. Mr. Williams imagined a theoretical example in which someone enters into an agreement with a property owner to have access to an office within a larger building. The property owner could continue to expand the building by adding additional offices. However, the consumer would still have access to the one office space in the agreement. He compared this analogy to a consumer accessing computing power or storage capacity from a cloud-service provider. Even if the provider expanded capacity to provide access to other parties, the consumer would still have access rights to the IT resource in accordance with the terms of the agreement.

Mr. Williams concluded by describing staff's plans to further engage various federal reporting entities that use cloud services, as well as private companies that provide cloud services, to understand typical requirements, payment terms, and performance criteria of cloud-service arrangements. This would provide members more insight into what kind of control federal entities possess with cloud-service arrangements. He stated that he was coordinating with GSA to provide the Board an educational session on cloud-service arrangements during the upcoming June meeting. Mr. Williams then encouraged members to provide their initial thoughts and to indicate where they need more information to determine in the future whether cloud-service arrangements could meet the SFFAC 5 asset characteristics.

The Board overwhelmingly agreed with staff's asset guidance framework and observations on the complexity with determining whether federal entities can have control over the economic benefits and services of cloud-service arrangements. Members also overwhelmingly supported the next steps as outlined by staff, with several members specifically voicing interest in the planned educational session.

One member noted that in order for an asset to exist, the resource must provide economic benefits and services that the federal government can use in the future, otherwise the payment simply represents an expense as incurred. The member further explained that it is imperative that the resource represents future benefits and services and, therefore, the period of performance and payment terms of the agreement are critical for determining if an asset exists. The member suggested that it was possible that some cloud-service arrangements would not offer future benefits while some could represent benefits in future reporting periods.

Two other members agreed that an identifiable future period of performance is necessary for an asset to exist and that the length of the period of performance is important. Mr. Williams agreed and reiterated the need to further research typical requirements, payment terms, and performance criteria of cloud-service arrangements in the federal environment. He stated that many cloud-service arrangements could present as multi-year agreements that would indicate a future benefit to the consumer. However, federal entities could also access cloud services on a pay-as-you-go approach that may not represent a future benefit. Additionally, in instances when a federal entity purchases cloud tokens upfront for future use, that could potentially represent a pre-paid asset.

Some members agreed that it is critical to determine whether a consumer of a cloud service could deny or regulate access to others. One member stated that there was an almost infinite amount of different services associated with cloud arrangements and the intangible nature of the resource made it especially difficult to evaluate the control criteria. Another member suggested an analogy in which someone has a right to access a standard office in a building of many identical offices. The consumer would not care which office they have access to, so long as they have access to an office. The member compared this analogy to a consumer having access to computing or storage capabilities through a cloud-service arrangement. Consumers also would not know or care about the specifics of the underlying IT resource providing those computing capabilities, so long as they obtained access to the cloud services. Mr. Williams agreed with all points and acknowledged that it was easier to envision how a consumer could deny or regulate access to a tangible piece of property compared to intangible cloud capabilities. However, he noted that that does not mean that a consumer of a cloud service could not deny or regulate access to others and reiterated the need for more research.

One member stated that it was important to define what a consumer actually has control over in a cloud-service arrangement and emphasized that more information was needed to make a decision. The member elaborated that a consumer would control the right to use a specific benefit or service but that the consumer would not completely control the underlying asset. Another member pointed out that it was especially important to consider if the consumer can control access to the benefits and services of an underlying asset, and if a federal entity were receiving the benefits and services of a cloud-service arrangement then it would exercise some form of control. In other words, if a consumer is paying to receive the benefits or services, then the consumer can control access to the benefits and services. Another member appreciated the distinction that it was important to consider control over the economic benefits and services of a resource and not necessarily control over the resource itself.

Another member thought that many instances of cloud-service arrangements could reasonably provide the right to access and use the underlying IT resource and that the consumer would have control over whether other parties could access that same resource. However, the member understood some arrangements would not meet that standard and that it is particularly difficult to pinpoint what exactly the consumer of a cloud-service controls.

One member suggested that cloud-service arrangements appeared to resemble utility services or other types of service contracts that the consumer could just expect to be available as needed. Another member stated that it was important to consider the future ramifications of financial reporting requirements for other service contract transactions if the Board were to consider asset reporting for an intangible service agreement. The member pointed out that lease guidance clearly applies to tangible property and that applying some kind of asset reporting guidance to an intangible cloud-service agreement could lead to ensuing questions on how to report many other types of service contracts in the federal environment, such as lawn care or contracts.

Mr. Williams provided his thoughts on how the Board could distinguish differences between service contracts and lease-type arrangements for reporting cloud-service arrangements. He suggested that it was important to determine whether the delivery of economic benefits and services was severable or non-severable. He theorized that an example of a non-severable agreement is the right to access tangible property. In this case, upon an established agreement, the provider delivers access to property upfront in its entirety and the user has the right to access that property throughout the period of the agreement. On the other hand, an example of a severable service is a janitorial agreement. In this case, the provider does not deliver complete access to an underlying resource at commencement of the agreement, but delivers incremental and severable services at different points in time throughout the period of the agreement. Mr. Williams indicated that he developed the severable versus non-severable idea from researching other standard-setter analysis and recommended the Board consider cloud-service arrangements from this perspective in future deliberations.

One member questioned the monetary materiality of cloud-service arrangements. Mr. Williams stated that presently annual cloud-service costs appeared relatively small compared to total asset value in the federal government but that the use of cloud-service arrangements has grown significantly in recent years. Another member replied that qualitative, not just quantitative, aspects of cloud-service arrangements were important for assessing materiality. For example, cloud services are an increasingly integral resource of federal entities, and consistent financial reporting of cloud-service arrangements could assist federal entities in making informed management decisions.

One member inquired how cloud technology could theoretically evolve over the coming years. Another member agreed that software technology in general was constantly evolving and that it would be important for the Board to ensure that future reporting guidance was not static but flexible for unforeseen changes in federal IT resources. The member also suggested that it would be important to consider inter-entity cost accounting requirements in accordance with SFFAS 55, *Amending Inter-entity Cost Provisions*, for future reporting guidance development.

Mr. Williams closed the discussion by reiterating that more research was needed for the Board to ultimately make an informed decision on whether cloud-service arrangements could present as assets in the federal government. He also reiterated that he was coordinating with GSA to provide the Board an educational session on cloud-service arrangements during the upcoming June meeting. Then during the August meeting, he

planned to give the Board a deep-dive analysis on whether cloud-service arrangements could meet all of the essential characteristics of an asset. Mr. Williams also plans to present potential financial reporting benefits and burdens of reporting cloud-service arrangements as assets.

- **Leases – Reimbursable Work Authorizations – Board Discussion**

Mr. Casto introduced [topic B](#) by thanking participants from the educational session held on day one of the meeting.

Mr. Casto expanded on the points made during the panel, explaining that RWA agreements are likely unique to the federal environment in many respects. He explained that the underlying assets of RWAs are under lease agreements and, therefore, imputed costs or imputed financing sources guidance is not applicable. Further, in many cases RWAs are unique from other transactions like assisted acquisitions because statutory authority significantly influences accounting. A lessee will provide funding, but a lessor has the legal authority to own and manage the underlying property.

Mr. Casto explained that one party often receives reduced rent over the term of the agreement, while the other party has received reimbursement but has not yet satisfied its performance obligations to provide subsequent access to the economic benefits and services derived from the leased asset. Such performance obligations are satisfied through the access provided under the lease agreement.

Mr. Casto explained staff's preliminary view that customer-lessees hold conceptual elements of an asset for their right to receive benefits and services from their use of the underlying asset for costs already financed (paid for) through the RWAs. In addition, provider-lessors have a liability (1) to acquire an underlying asset and (2) to provide access to benefits and services for customer-lessees to use over time. Moreover, the associated intragovernmental revenues and expenses can be matched to the performance obligations and the term for which the customer-lessee has the right to derive economic benefits and services.

Staff recommended a model for different treatment of (1) RWA improvements that provide a more than insignificant level of residual economic benefits and services to the provider-lessor and extend beyond the term of the lease and (2) those RWA improvements that are more tailored to the specific needs of and predominantly benefit the customer-lessee. Provider-lessors would not be expected to derive significant economic benefits and services from these.

Mr. Perry described the early project history of RWAs. The Bureau of the Fiscal Service worked with agencies on RWAs in intragovernmental dispute resolutions from 2015-2018 but could not come to any agreements. This was largely due to a lack of authoritative guidance under the generally accepted accounting principles hierarchy. He elaborated that staff worked to build consensus among key reporting entities with significant RWA activities. Mr. Casto expanded on the research approach, noting that

staff met with FASAB general counsel to inform its research and supplement staff's understanding of RWA activities and the associated legislative authorities.

Mr. Casto began an overview of staff's accounting literature review by revisiting the conceptual objectives of comparability and consistency, reminding the Board of staff's project objectives and that differences in financial reports should be caused by differences in transactions, rather than by different alternatives in accounting practices.

Mr. Casto described staff's literature review from other standard setters; most notably, staff reviewed the Financial Accounting Standards Board's ASC Topic 606, *Revenue from Contracts with Customers*. This describes topics similar to RWAs, such as significant financing components with upfront fees and consideration payable. While staff views these topics as only being partially analogous to RWAs in the federal sector, they all support consistent accounting fundamentals and concepts for recognition and measurement.

Question 1 – Do members have any preliminary, high-level feedback on the research methodology summarized in the table below? What types of evidence and analyses would members like to see in the June briefing materials to facilitate their technical reviews during the next phase of deliberations? Is the project methodology below appropriately designed to gather such evidence?

One member recommended that staff take a broad approach to include other agencies that may be impacted other than GSA, State, and SSA, even if they represent lower dollar amounts. Mr. Perry remarked that other agencies were asked to participate in an RWA working group but some elected not to join for various reasons.

Members generally supported staff's initial approach, noting that they also looked forward to a more technical review discussion at the June meeting.

Question 2 – Do members have any feedback on staff's literature review or other authoritative guidance (including guidance from other standard-setting bodies) that staff should take into consideration in the June briefing materials?

Members remarked the initial literature review was quite thorough. A few members indicated that they would also like to see how the recommended approach would look in a posting model to verify their preliminary understanding of the proposal.

Question 3 – Do members have any feedback on staff's basis for the pronouncement type recommendation of a Technical Bulletin for RWAs?

Mr. Casto briefly described the purposes and uses of Technical Bulletins (TBs).² Given the scope of RWAs (affecting only selected agencies and relatively smaller dollar amounts), staff views a TB as the most appropriate and efficient pronouncement type to

²As described in TB 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*, par. 3-5.

resolve the accounting issues. Mr. Casto described provisions of FASAB's Rules of Procedure and TB 2000-1 as the basis for staff's recommendation.

Board members did not object to using a TB. Mr. Casto reiterated staff's goals to discuss a pre-ballot proposal at the June 2022 meeting and subsequently ballot and release an exposure document for public comment in July 2022.

- **Leases – Omnibus**

Mr. Perry introduced [topic E](#) by providing an overview of feedback and edits to the pre-ballot draft that were submitted to staff by Board members in advance of the meeting.

Question 1 – Do members have any feedback on the revisions made in response to member feedback?

Feedback included the following:

- Re-word and streamline a paragraph of the executive summary. One member flagged redundancy in the rephrased paragraph. Staff agreed to correct the issue prior to sending out the ballot version. Staff noted that a conforming edit would be made to the questions for respondents, which uses consistent language.
- Clarify edits to improve the readability and consistency of the omnibus proposals for paragraphs 42A-42C and 59A-C.
- Add a cross reference to paragraphs 42-42C within the omnibus proposal for paragraph 48.
- Strike the term “simply” from paragraphs 42C and 59C because the term is unnecessary.
- Make additional clarifying omnibus edits within the omnibus proposal for paragraph 92.
- Make editorial improvements and clarifying edits to certain basis for conclusions paragraphs and the organization of the sub-paragraphs discussing the conceptual basis for the Board's omnibus proposals on discount rates.
- Add paragraph A9 to summarize how the proposed guidance addresses the considerations summarized in earlier basis for conclusions paragraphs.

Board members expressed support for the pre-ballot edits and improvements presented by staff.

Question 2 – Do members have any comments on the questions for respondents and basis for conclusions?

Members noted a few additional follow-up edits and improvements during the meeting:

- Break the general question for respondents reflected in the pre-ballot version into two questions for respondents—one question focused on each of the two major technical areas for which the omnibus amendments relate.
- Clarify edits to paragraph A6 of the basis for conclusions.

Question 3 – Do members approve the pre-ballot draft (attachment 2) and staff's recommendation to release the proposal as an exposure draft for a public comment period of 60 days?

The Board approved the pre-ballot draft and staff's recommendation to release the proposal with a comment period of 60 days.

Next steps: Staff will distribute a ballot copy of the draft exposure draft after finalizing the pre-ballot edits discussed at the meeting. Mr. Perry thanked members for their feedback and careful review during the pre-ballot phase. Once staff receives five approval ballots, the exposure draft will be released for public comment for a period of 60 days.

Adjournment

The Board meeting adjourned at 4:30 p.m.