

Leases Implementation Task Force Meeting Minutes
May 12, 2020, 1:30 PM to 4:00 PM
Video Conference (WebEx)

Attendance

Mr. Perry, FASAB senior analyst, and Ms. Dewhirst, FASAB fellow on detail from GSA, were present throughout the meeting. Formal attendance was not taken due to the large task force membership and observer group constituency.

This meeting was held via WebEx, and all members and observers dialed in. Eighty-five phone numbers connected into the conference call.¹

Welcome; Overview of Meeting Objectives; Project Status and Timelines (Agenda Item #1)

Welcome

The task force meeting officially convened at about 1:30 PM. Mr. Perry kicked off the meeting by welcoming task force members. Some members expressed concern that they could not hear the audio. Mr. Perry reminded members to call in using the phone number listed on the agenda. This resolved the audio issue.

Overview of Meeting Objectives

Mr. Perry stated that the task force would discuss the lessee recognition, measurement, and disclosures for leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases topic area during this meeting. He noted that several agencies provided preliminary feedback in advance of the meeting and encouraged other task force members to provide feedback as well.

Review Project Plan

Mr. Perry noted that the timelines in the leases implementation project plan (Attachment 1) remain unchanged. Ms. Dewhirst reminded the task force about the request for volunteers to draft the task force and AAPC meeting minutes and perform a fatal flaw review of the implementation guidance. Assistance from the task force in these areas would be very beneficial for Mr. Perry and Ms. Dewhirst as they continue to work on upcoming sections of the implementation guidance.

AAPC May Meeting

Mr. Perry provided an overview of the May AAPC Meeting. He expressed the AAPC's appreciation to the task force for the work completed to date. He pointed out a few of the comments from the AAPC and mentioned that he would go over those in more detail during the discussion on agenda item #2.

SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*

¹The total meeting time was 163 minutes. 80 of 85 numbers connected for at least 30 minutes; 72 of 85 for at least 60 minutes; 63 of 85 for at least 90 minutes; and 49 of 85 for at least 120 minutes. Some numbers represent individual task force members/participants/observers, while others represent groups of members/participants/observers.

Mr. Perry thanked the task force for their participation in the deferral project. The Board approved deferring the effective date of SFFAS 54, *Leases*, to reporting periods beginning after September 30, 2023. The expected issuance date of SFFAS 58 is June 19, 2020.

Task Force Discussion of Draft Implementation Guidance (Agenda Item #2, First Bullet)

Revisiting Previously Covered Topic Areas

Mr. Perry asked task force members to provide input, question-by-question, as he recapped the edits made under the topic areas (Attachment 2) based on task force feedback at the April 15th meeting and AAPC feedback at the May 7th meeting.

Scope/Definitions

On question 4, Mr. Perry noted a math error that was identified by the AAPC and has been corrected. He also pointed out clarifying edits that were added to address concerns. The task force had no additional comments.

On questions 6.a and 6.b, Mr. Perry summarized the discussion from the AAPC meeting and the clarifying edits that will be made to these questions.

On question 9, Mr. Perry asked if the task force had any examples of cell phone tower or antenna agreements that would *not* meet the definition of a lease in SFFAS 54. A few task force members responded that they do have such examples and would provide them after the meeting. Mr. Perry will review these examples and provide additional clarification in this question's response if appropriate.

On question 11, Mr. Perry explained a clarifying edit needed in accordance with SFFAS 38.

Lease Term

On question 14, Mr. Perry addressed edits made to the related omnibus change to paragraph 19.a of SFFAS 54. He also stated that a call-out box or something similar will be used in the exposure draft to note questions that are related to changes made in the omnibus. He noted that staff would like to expose the technical release for the implementation guidance in tandem with the omnibus.

On questions 17, 18, and 19, Mr. Perry noted clarifying edits and thanked members of the task force who provided examples that were used to highlight potential factors.

Short-Term

On question 24, Mr. Perry discussed the proposed omnibus amendments that relate to this question. The task force did not have any additional comments.

Intragovernmental

On question 27, Mr. Perry discussed edits made to better describe when a reduction in rent should be treated as a step rent decrease and when it should be treated as a lease concession.

Mr. Perry expressed that the three questions in the disclosures for intragovernmental leases topic area were inadvertently left off from the draft provided to the task force for this meeting. They will be added to the next draft to be discussed at the June task force meeting.

Mr. Perry asked whether there were additional technical issues that task force members wished to discuss before moving on to the next topic areas.

Members agreed to move on to the next topic areas and to provide minor technical comments and questions to staff electronically for consideration.

Task Force Discussion of Newly-Drafted Topic Areas (Agenda Item #2, Second Bullet)

Ms. Dewhirst directed task force members' attention to the newly-drafted lessee recognition, measurement, and disclosures for leases other than short-term leases, contracts or agreements that transfer ownership topic area, inviting members to provide input and ask questions as she recapped each question and answer and the intended implementation issue to be clarified by each.

Lease Liability

On question 30, Ms. Dewhirst discussed edits received in advance from two agencies² that provide greater clarification. She indicated that these edits will be incorporated in the guidance. The task force discussed further clarifying edits, but staff cautioned against being too specific. An agency³ expressed that the capitalization threshold for lease liabilities and assets should not be the same as the general PP&E capitalization threshold by default. Another agency⁴ agreed that analysis should always be done before establishing a capitalization threshold for lease liabilities and assets; however, they expressed that they have done this analysis for their agency and found that they could use the same threshold in both cases. Staff and task force members agreed that lease assets and PP&E capitalization thresholds should be determined based on different qualitative and quantitative factors, particularly given that lease assets have a corresponding liability on the books. Based on this discussion, staff recommended keeping the response broad and encouraging agencies to conduct their own analysis to establish these thresholds. The current answer, as drafted, calls out that the need to consider the corresponding lease liability when determining the capitalization threshold for lease assets. Mr. Perry noted that there is likely a way to rephrase the question for clarity. (Note: Staff may also move ultimately move this question into the lease asset topic)

On question 31, the task force expressed concern about the requirement to estimate the amount for the renewal term when the amount is not stated in the agreement. Ms. Dewhirst stated that the estimation would only be necessary if, at the commencement of the lease, the lessee determined that it was probable that the renewal would be exercised. This seems unlikely in most cases as cost is a major factor in this determination. While the task force agreed with this, a few members maintained concern over the request to estimate. Staff agreed to review this further and consider opportunities to provide clarity for unusual circumstances when developing reasonable estimates for renewal terms may not be possible.

On question 32, the task force discussed the inclusion of SFFAS 54 paragraphs 75 and 76 in this section. Mr. Perry acknowledged the slight disconnect and absence of clear linkage between the sections of the Statement, but noted that paragraphs 75 and 76 are nevertheless applicable to lease liabilities as well.

On question 33, the task force asked if the CPI adjustments mentioned here were related to base (shell) costs or operating costs. Ms. Dewhirst clarified that this example is related to base (shell) costs. Mr. Perry asked if an illustration would be helpful for this example, and the task force agreed that it would.

²The agencies are CFO Act agencies.

³The agency is a CFO Act agency.

⁴The agency is a CFO Act agency.

On question 34, the task force did not have any technical comments.

On question 35, the task force requested clarifying edits to reiterate that variable payments would not be included here even though they are estimable. Ms. Dewhirst agreed with the suggestion.

On question 36, the task force did not have any technical comments.

On question 37, an agency⁵ expressed concern over the inclusion of the reference to SFFAS 42, *Deferred Maintenance and Repairs*. Mr. Perry agreed that clarifying edits would be helpful, but that the intent of the question is to help agencies delineate which types of liabilities are included in lease liabilities and which types of liabilities should be separately recorded.

On question 38, Ms. Dewhirst asked the task force if an illustration of this example would be helpful, and they agreed that it would. Ms. Dewhirst also stated that staff received a request from one agency⁶ to add another question on interest rates. They would like guidance on cases where the interest rate charged by the lessor is known for only one component of the lease. The agency that submitted the request drafted a potential question that staff will review and include. Staff will ask the task force to review this question with the next draft of the implementation guidance.

On questions 39 and 40, the task force did not have any technical comments.

Lease Asset

On questions 41 and 42, the task force did not have any technical comments.

On questions 43 and 44, the task force expressed concern that the intent of the question was not clear. The task force requested that staff provide clarity and consider ways to make these questions better align with the standard. Staff notated a potential edit, agreeing with the task force suggestion.

On questions 45 and 46, the task force did not have any technical comments.

Component Reporting Entity Disclosure Requirements for Lessees

On question 47, the task force questioned if lease assets are PP&E. Ms. Dewhirst and Mr. Perry stated that lease assets are *not* PP&E, but rather an intangible right-to-use lease asset. The task force requested that this be clarified in the standard. Ms. Dewhirst and Mr. Perry both agreed that an omnibus amendment is necessary for paragraphs 39 and 53 of SFFAS 54. Mr. Perry cautioned that SFFAS 54 may continue to avoid defining the term “intangible asset,” in order to avoid potential conflicts with future projects on that topic.

On questions 48 and 49, the task force did not have any technical comments.

On question 50, Ms. Dewhirst asked if the question is helpful to include or if it should be deleted. There were no comments from the task force, so Ms. Dewhirst stated that it would remain for now.

On question 51, the task force felt that this question was out of place and recommended that it be deleted. There was discussion about the related GASB question and how staff modified it for the federal community. It was noted that the example is not accurate as currently written. Mr. Perry

⁵The agency is a CFO Act agency.

⁶The agency is a CFO Act agency.

agreed to research this further and either make corrections to the example or remove the question entirely.

On question 52, an agency⁷ noted the citation referencing paragraph 54.c of SFFAS 54 did not seem accurate and recommended a reference to paragraph 54.a.ii instead. Mr. Perry and Ms. Dewhirst agreed to review this and make the correction if needed.

Ms. Dewhirst thanked the task force for the verbal feedback and discussion as well as the electronic comments provided in advance of the meeting. Ms. Dewhirst encouraged task force members with additional comments to please provide those electronically after the meeting.

Staff will document task force members' feedback in the meeting minutes and review the edits made as a result of task force feedback at the June meeting.

Next Steps (Agenda Item #3)

Next Topic Areas (Projected)

Ms. Dewhirst indicated that the next topic areas to be addressed will be (1) Lessor Recognition, Measurement, and Disclosures for Leases Other than Short-Term Leases, Contracts or Agreements that Transfer Ownership, and Intragovernmental Leases, (2) Financial Report of the U.S. Government Disclosures, and (3) Lease Incentives and Lease Concessions.

Ms. Dewhirst expressed that staff may complete several of the smaller sections for the next draft and then complete the Lessor Recognition, Measurement, and Disclosure section for the July meeting. Staff will make a decision based on workload in the upcoming weeks.

Ms. Dewhirst and Mr. Perry stated that materials will be provided 1-2 weeks before the June meeting and encouraged the task force to provide written comments in advance of the meeting if possible. Staff reminded the task force to please use the format requested when providing comments.

FASAB June Board Meeting

Ms. Dewhirst expressed that task force members are invited to listen in during the June 24th–25th FASAB Board meeting. The agenda has yet to be set, but the Board will likely be discussing the leases omnibus proposal and software licenses.

Next Steps

Mr. Perry and Ms. Dewhirst will:

- a. Continue drafting the next bundle of questions and answers.
- b. Follow up directly with task force members to obtain clarification as needed.
- c. Be in contact with task force members on the software licenses working group regarding the June meeting.
- d. Continue to discuss implementation issues one-on-one with task force representatives—over the phone and electronically—in the coming weeks.

⁷The agency is a CFO Act agency.

Task force members will continue to communicate implementation issues to Mr. Perry and Ms. Dewhirst as they are identified.

Adjournment

Mr. Perry and Ms. Dewhirst thanked the task force for a productive meeting.

The meeting adjourned at about 4:15 PM.

The next task force meeting will be Thursday, June 11th, at 1:30 PM via WebEx and teleconference.