

**Accounting and Auditing Policy Committee (AAPC) Meeting Minutes**  
May 6, 2021, 1:00 PM ET  
WebEx and Conference Call

**Attendance**

**Members**

**Staff**

Ms. Monica Valentine (FASAB, Chair)  
Mr. Brian Casto (Treasury)  
Mr. Gil Harden (CIGIE)  
Ms. Carol Johnson (OMB)  
Present: Mr. Prasad Kotiswaran (CFOC)  
Ms. Kim Laurance (CFOC)  
Mr. Troy Meyer (CIGIE)  
Mr. Walter Obando, for Mr. Kurt Hyde  
Mr. Joseph O'Neill (GAO)  
Mr. Robert Smalskas (CFOC)

Mr. Ricky Perry, Senior Analyst  
Ms. Melissa Batchelor, Assistant Director  
Ms. Katherine Hudson (General Counsel)\*

Apologies: Dr. Brett Baker (At-Large)  
Mr. Kurt Hyde (CIGIE)

Ms. Lisa Motley (General Counsel)

\* Absent from 1:00 PM until 3:00 PM

**Welcome (Agenda Item #1)**

The meeting began at 1:04 PM. Mr. Perry welcomed Mr. Gil Harden. Mr. Harden joins the AAPC (or “the Committee”) as one of the representatives of the inspector general (IG) community appointed by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). He replaces Ms. Patricia Layfield, who retired from federal service in March 2021.

**Updates on Recent Task Force, Board Developments, Project Status (Agenda Item #2)**

Mr. Perry directed Committee members to review the project plan under attachment A of the [meeting materials](#). He summarized the project plan, highlighting the goal of approving the omnibus amendments Statement and leases implementation guidance Technical Release (TR) in late fiscal year 2021 and approving them in early fiscal year 2022.

Members were generally familiar with the project plan based on prior Committee discussions and had no questions or feedback related to the project plan.

**Discussion of updated TR draft – part 1 (Agenda Item #3)**

Mr. Perry directed Committee members to attachment C of the meeting materials. Members agreed to provide remaining feedback on guidance, provide contingent approvals on any matters requiring additional Board action, and to further deliberate any updates that may become necessary in light of future Board decisions at the upcoming June Board meeting.

Members provided a few minor editorial comments on the first few pages of the draft TR, including the AAPC description page and the table of contents.

Att. C par. 2 – Mr. O'Neill expressed concern that the scope and applicability of a limited number of questions and answers could potentially be misunderstood by users. Mr. Perry noted that staff

shares Mr. O'Neill's concerns and had previously considered adding clarifying language to paragraph 2 to remind readers to be mindful of the related sections or sub-sections of the TR under which the guidance they are using falls.

Members agreed that the edit could be a helpful reminder to readers. Mr. O'Neill also encouraged staff to give the guidance a fresh look during final proof-reading to determine if similar edits may be necessary elsewhere in the guidance. Mr. Perry agreed, but also noted that staff has previously considered such concerns and, in light of some of the omnibus amendments, believes that the scope and applicability of each section and sub-section of guidance should now be sufficiently clear.

Att. C par. 3-7 – Members did not have any comments or edits.

Att. C par. 8 – In response to feedback from Mr. O'Neill, members agreed to strike a segment of the draft guidance that was not relevant to the question and may have introduced confusion.

Att. C par. 9-11 – Members did not have any comments or edits.

Att. C par. 12 – Members agreed that, since the question alludes to market rent, the first paragraph of the answer should clarify that the transaction should be recorded based on the terms of the lease agreement. The Board will discuss GAO comments surrounding the second paragraph at its upcoming meeting in June.

Att. C par. 13-30 – Members did not have any comments or edits.

#### **Discussion of proposed project (Agenda Item #4)**

Ms. Batchelor directed Committee members' attention to attachment D of the meeting materials. She explained that staff is seeking Committee approval to examine existing TRs for conforming amendments resulting from two recent pronouncements: (1) Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities*, and (2) Technical Bulletin (TB) 2017-2, *Assigning Assets to Component Reporting Entities*. Ms. Batchelor further summarized the requirements of those pronouncements and noted four TRs that may require conforming amendments, pending further analysis.

In response to a question from a member, Ms. Batchelor noted that there have been two technical inquiries surrounding Interpretation 9 in the past two years. She explained that, based on the volume of technical inquiries, she did not believe additional guidance on the Interpretation was necessary at this time. However, technical inquiries and requests for guidance are welcome and can be provided to the Board and the AAPC for consideration in setting their technical agendas.

Ms. Batchelor informed members that she plans to return to the Committee in August with a more detailed project plan and recommended approach. Committee members approved the project.

The Committee briefly recessed for a 10-minute break.

#### **Discussion of updated TR draft – part 2 (Agenda Items #5)**

Att. C par. 13-30 – Members did not have any comments or edits.

Att. C par. 31 – Mr. O'Neill suggested that breaking up the answer into two paragraphs (one to discuss the general rule and one to discuss transition guidance) may be beneficial. Mr. Perry agreed but cautioned against doing so simply because breaking up the paragraph would likely necessitate re-phrasing the third sentence. In light of this, Mr. O'Neill agreed that it may be best to leave the answer as written.

Att. C par. 32-33 – Members did not have any comments or edits.

Att. C par. 34 – Members agreed to remove the first sentence of the draft answer to enhance clarity.

Att. C par. 35 – Members did not have any comments or edits.

Att. C par. 36 – Members agreed to align the answer with the question for consistency and refer to “reduced rent” rather than “free rent,” as reflected in the scenario of the question.

Att. C par. 37-55 – Members did not have any comments or edits.

Att. C par. 56 – Mr. O’Neill observed that the guidance, along with par. 51 of SFFAS 54, may need to be re-examined in light of SFFAS 59.

Ms. Valentine noted that the guidance currently reflected here is in line with SFFAS 54 and it may not be appropriate to revise the guidance unless the Board revisits SFFAS 54.

Mr. Smalskas suggested that it may be best to remove the question from the guidance to prevent conflicts and ambiguities. The Committee agreed that removing the question may be the best step. Mr. Perry agreed to attempt to revise the guidance and, if revisions proved challenging, staff may remove the question. Committee members agreed with the approach.

Att. C par. 57-58 – Members did not have any comments or edits.

Att. C par. 59 – In response to a suggestion from Mr. Casto, the Committee agreed to add language to the guidance to remind users that the accounting and reporting requirements for PP&E would apply to leasehold improvements owned by lessees.

Att. C par. 60-62 – Members did not have any comments or edits.

Att. C par. 63 – Mr. O’Neill expressed concern regarding the phrasing used in the answer. He explained that “degree of uncertainty” surrounding a liability does not necessarily equate to “likelihood.” Mr. Perry agreed with the comment and made suggested clarifying revisions to which the Committee agreed.

Ms. Valentine cautioned that SFFAS 5 is phrased as presented in the guidance; however, members agreed that the revisions enhanced the clarity of the guidance and aligned with the Board’s intent in SFFAS 5. The Committee, therefore, agreed not to precisely align the phrasing of the guidance with that of the Statement in this particular instance.

Att. C par. 64 – Mr. Obando identified a correction needed to the answer, noting that the answer provided examples of initial direct lease costs.

Att. C par. 65-68 – Members did not have any comments or edits.

Att. C par. 69 – Members agreed to implement minor edits to more precisely align the second sentence of the answer with phrasing used in the basis for conclusions of SFFAS 54.

Att. C par. 70 – Members did not have any comments or edits.

Att. C par. 71 – In response to a suggestion from Mr. O’Neill, members agreed to minor edits to merge the first and second sentence for clarity and brevity.

Att. C par. 72-73 – Members did not have any comments or edits.

Att. C par. 74 – Mr. O’Neill observed that the guidance may not be sufficiently clear regarding the non-applicability to short-term and intragovernmental leases. Staff agreed to insert a footnote to the final sentence of the answer to refer readers to paragraphs 23 and 27 of SFFAS 54 for analogous guidance on those types of leases.

Att. C par. 75-85 – Members did not have any comments or edits.

Att. C par. 86 – Members agreed to modify the first sentence to clarify the logical sequence of accounting events and decisions described in the scenario.

Att. C par. 87-91 – Members did not have any comments or edits.

Att. C par. 92-95 – Members did not have any comments or edits. Mr. O’Neill recommended that staff seek clarification from the Board regarding the applicability of the guidance in paragraphs 89-92 of SFFAS 54 to intragovernmental and short-term leases.

Att. C par. 96-97 – Mr. O’Neill recommended that staff seek clarification from the Board regarding the guidance. He noted that the Board may need to redeliberate paragraph 93 of SFFAS 54.

Mr. Perry expressed reservations about redeliberating paragraphs 89-93 of SFFAS 54. He noted that sale-leasebacks and lease-leasebacks are rare and can be tabled for redeliberations and additional omnibus projects. Staff seeks to issue the current omnibus project and implementation guidance by October to provide the community with urgently-needed guidance and clarifications to facilitate more significant implementation readiness activities across the community. Mr. Perry offered to tee up discussions at the June Board meeting to discuss these issues, but noted that he intends to express these views regarding priorities to the Board and staff’s desire to table more narrow issues such as this for the time being.

Att. C par. 98 – Staff agreed to consider potential methods for adding additional clarity and discussion on how to handle existing balances in the transition guidance.

Att. C par. 99 – The Committee agreed to a technical edit to clarify that unamortized lease incentives and concessions affecting future payments would be included in the lease liability and lease asset measurement when transitioning to the new standards.

Att. C par. 100 – Members did not have any comments or edits.

Mr. Perry explained staff’s recommendations to merge conforming amendments to existing TRs resulting from SFFAS 54 into the implementation guidance TR. This approach will help streamline the collective due processes and administration of the two projects.

Att. C par. 101 – Members supported the conforming amendment to footnote 4 of paragraph 3 of TR 10. The conforming amendment that was previously exposed for public comment was further modified as a result of comment letters and omnibus amendments to SFFAS 6 agreed to by the Board (as reflected in attachment B).

Att. C par. 102-103 – Some members expressed concerns about the absence of guidance for cloud computing arrangements and software licenses, particularly in light of the proposed rescissions.

Mr. Perry summarized the software licenses TB project and the basis for terminating the project as a result of the need for Board action and the limitations and due process rules which preclude TBs and TRs from promulgating new requirements. Mr. Perry also noted that the rescissions to TR 16 will not become effective until fiscal year 2024.

Members did not have any additional comments or edits.

**Next Steps (Agenda Item #8)**

Mr. Perry will circulate a pre-ballot version of the TR for finalizing edits. Following those pre-ballot edits, staff will circulate a ballot copy for contingent Committee approval. Any Board decisions that affect approved guidance would, in effect, be overridden by the Board and revisited by the Committee for purposes of revisiting, amending, and re-approving.

**Adjournment**

Staff thanked the Committee for a productive meeting and its insightful feedback.

The meeting adjourned at 5:15 PM.