

Federal Accounting Standards Advisory Board

FOR MORE INFORMATION:

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NEWS RELEASE

Clarification of Federal Lease Standards

On April 17, 2018, the Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS) 54 titled *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*.

SFFAS 54 revises the financial reporting standards for federal lease accounting. The Statement provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports and includes appropriate disclosures. The requirements of SFFAS 54 are effective for reporting periods beginning after September 30, 2020—fiscal year (FY) 2021. Early adoption of SFFAS 54 is not permitted.

FASAB staff is now being asked the following question:

“The new Financial Accounting Standards Board (FASB) lease accounting standards [Accounting Standards Update (ASU) No. 2016-02 – *Leases- Topic 842*] are effective beginning in calendar year 2019. How, if at all, does this affect federal reporting entities that present general purpose financial reports in conformance with SFFAS 34 (par. 5–8) prior to the new FASAB lease accounting standards (SFFAS 54) become effective in FY 2021?”

Federal reporting entities should not convert their lease accounting practices to follow FASB's new lease accounting standards, ASU No. 2016-02 - *Leases- Topic 842*. Federal reporting entities should continue to follow the current FASAB guidance that addresses lease transactions. This comprises paragraphs 43-46 of SFFAS 5, *Accounting for Liabilities of the Federal Government*, and paragraphs 20 and 29 of SFFAS 6, *Accounting for Property, Plant, and Equipment*. These paragraphs are not rescinded until SFFAS 54 becomes effective. In those instances where the current standards are silent on an issue, the reporting entity should review the hierarchy of generally accepted accounting principles in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, to identify prevalent practices consistent with SFFAS 5 and 6. SFFAS 5 and 6 were originally developed from the FASB lease

standards, which were effective at the time (Accounting Standards Codification - *Leases-Topic 840*). Generally, reporting entities should continue their current lease accounting practices.

ABOUT FASAB

FASAB serves the public interest by improving federal financial reporting through issuing federal financial accounting standards and providing guidance after considering the needs of external and internal users of federal financial information.

Financial reports, which include financial statements prepared in conformity with generally accepted accounting principles, are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, the Board plays a major role in fulfilling the government's responsibility to be publicly accountable. Federal financial reports should be useful in assessing (1) the government's accountability and its efficiency and effectiveness and (2) the economic, political, and social consequences, whether positive or negative, of the allocation and various uses of federal resources.

FASAB issues federal accounting standards after following a due process consistent with the Memorandum of Understanding under which it operates. Due process includes consideration of the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

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