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Name: Edward Gramp, Jared Leicht, April Pratt

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Organization: General Services Administration

**Q1.** The Board is proposing to define a **lease** as a contract or agreement that conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction. The current lease standards, Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government* and SFFAS 6, *Accounting for Property, Plant, and Equipment*, do not specifically define a lease. SFFAS 5 and SFFAS 6 only define a capital lease as a “lease that transfers substantially all the benefits and risks of ownership to the lessee.” The Board believes that the more concise definition being proposed is broad enough to capture the diversity of federal leasing activities. The proposed lease definition is presented in paragraph 9 and further explained in paragraph A15.

**Do you agree or disagree with the proposed definition of lease presented in paragraph 9 and further explained in paragraph A15? Please provide the rationale for your answer.**

**GSA offers the following for the Boards’ consideration:**

We agree with the definitions that a lease is a contract and in the case of intragovernmental transactions, an agreement, that give the right to use a non-financial asset for a period of time, and provides consideration or something of value in exchange for the use of the asset.

It will be helpful if in the final standard, discussion to clarify applicability to various types of real property, such as airport terminals, land lease only, outdoor parking lots/spaces, ground easements, air right easement, etc., that have required unique accounting treatment in the past. Without further guidance we would assume the Board would expect all real estate leases to be treated similar.

**Q2.** The Board is proposing that the **lease term** be determined as the period during which a lessee has a noncancelable right to use an underlying asset (referred to as the noncancelable period) plus each option period if it is probable, based on all relevant factors, that the lessee will exercise that option to extend the lease. The lease term proposal also provides guidance on the noncancelable period and on how specific provisions (such as fiscal funding/cancellation clauses and month-to-month lease holdovers) should be applied. The proposed lease term requirements are presented in paragraphs 14 – 18 and further explained in paragraphs A16 – A18.

**Do you agree or disagree with the proposed guidance on determining the lease term as presented in paragraphs 14 - 18 and further explained in A16 – A18? Please provide the rationale for your answer.**

#### **GSA's Response:**

View #1

We concur that the lease term should include the noncancelable right to use the underlying asset and should include options, that have likelihood (>50% probability) of being exercised. For entities such as GSA with a high number of real estate leases in its PBS portfolio (8,000+), assessing the probability of a lease option being exercised is an extreme workload at an individual lease. We ask for consideration from the Board to approve a high level approach to assessing the likelihood of options being exercised from a historical global perspective, for specific entities such as PBS. As defined in paragraph 17 *“At the beginning of a lease, lessors and lessees should assess all factors relevant to the likelihood that the lessee will exercise options, whether these factors are contract/agreement based, underlying asset based, market based, or federal specific. The assessment often will require the consideration of a combination of these interrelated factors. Examples of factors to consider include, but are not limited to, the following ...c. The lessee’s history of exercising renewal or termination options)”*.

How would the Board consider an extension? Typically we may extend a lease for a 5 year or less period, and such language would not typically be found in the original lease award. Rather GSA would seek an amendment with the lessor, a few months prior to the lease expiration to extend the lease term for a period of time, typically 5 years or less. Would the Board consider this an option period, per definition of paragraph 11. lease option period? We understand and agree with paragraph 16 d. the month-to-month holdovers and agree this would be considered a cancelable period and agree these would be excluded from the lessee's lease liability.

Paragraphs 14-16 are difficult to understand the Board's intent. Upon initial reading it appears paragraph 16a to be in contrast to paragraph 14. We provide the following example for the Board's consideration to show the confusion of these paragraphs;

Example: 7 year initial lease term, with a 5 year firm term, and (one) 8 year renewal option. No purchase options. GSA would assess greater than 50% probability of exercising the option to renew, and less than 50% probability to terminate the lease at the end of the firm term. Application per paragraphs 14-16 we would assume the following; noncancelable period= 5 years firm, option period = 8 year, Under which paragraph would the Board include year 6 and year 7 in the lease term?

Please elaborate on paragraph 16.c. GSA does not typically use such clause in real estate leases and would not find this relevant. *A fiscal funding or cancellation clause (a clause that allows federal lessees to cancel a lease agreement, typically on an annual basis, if funds for the lease payments are not appropriated) should be considered in determining the lease term only when it is probable that the clause will be exercised.*

## **View #2**

We do see benefits of the proposed approach of defining the lease term to consider inclusion of option periods to provide a more comprehensive picture of the expected financial impact of lease agreements. Especially with real property leases that GSA has extensive history with, the base or firm term of leases are rarely the total period of time that a lease will cover, with execution of options periods, lease renewals and extensions being commonplace in our operating environment.

However, there is also concern with the ED's use of the "probable" (>50% chance) as the gauge for inclusion of options in lease terms. It is requested that the Board further consider using the alternative terminology of "reasonably certain," with its higher likelihood of outcome, for this purpose, as it is used in the FASB 842 topic. Using the lower bar of the "probable" criterion would risk creating significant financial statement impacts when there is not reliable evidence that options will be exercised. Given the

proposed accounting treatment, the immediate recognition of long-term liabilities, combined with recognition of charges for interest in the payment stream, based on the total recognized liability, would leave readers with the implication of greater extension of debt-like financing than management is really binding itself to, and represent unnecessary risk of balance sheet overstatement. With the greater risk of overstatement, we would expect greater volatility and volume of downward financial adjustments being required due to changes in estimates of the likelihood of options being exercised. Since using the assessment of “probable” rather than “reasonably certain” will lead to earlier recognition of the associated lease assets and liabilities, this balance sheet and financing impact will be further distanced, and sometime much further in advance, of managements’ actual determinations and decision-making over commitment to extending leases. Use of “reasonably certain” both reduces this risk of balance sheet overstatement, and would help move the recognition closer to actual management decision-making when options are exercised. Further discussion of the impacts of using the “probable” likelihood for including options in lease terms is discussed with responses to question 4. While paragraph A-18 indicates that the FASAB agreed to not introduce a new definition of probable, we would refer them to example of SFFAS 12 as an example of where an alternative definition currently exists for circumstances related to legal contingencies.

An additional concern within the definition of lease term is the unique definition of “noncancellable period” that the ED creates. We recommend the Board consider the alternative definitions for lease term as cited in FASB 842. The term “noncancellable” and its normal language usage implies that the lessee/lessor cannot reasonably exit the lease without significant penalty. In paragraphs 15a and 15b, the ED changes this traditional meaning, to include periods that are cancellable, as long as earlier termination is not probable. Take an example of a lease with a base 7-year term, with the option to terminate after the 5<sup>th</sup> year - with a low probability of being exercised. The paragraph 15 definition of noncancellable period, would result in the 7-year term as being the noncancellable period to use with the para. 14 definition of lease term. This result is computed by taking the base 7-year term in accordance with para. 15a, with no adjustment needed for para. 15b since early termination is not probable. For practical purposes, the technical noncancellable period is 5 years, with 2 cancellable years to make up the base 7-year lease term. The FASB terminology results in the same computation of a 7-year lease term, but leaves the traditional language of non-cancellable period being the 5-year period, and then adds the 2-year reasonably certain period after the noncancellable period to compute the lease term. The FASB wording does not change the definition of a noncancellable period to include cancellable periods that are not reasonably certain. Accordingly, we recommend the ED be adjusted to use the more traditional meaning of a non-cancellable period, to exclude cancellable periods,

regardless of the probability of being exercised. Such a change would require rewording of paragraph 14's definition of lease term, to go beyond the true noncancellable term, based on the additional conditions such as likelihood of options, comparable to the definitions FASB used.

**Q3.** The Board is proposing that at the beginning of the lease term, a lessee should recognize a lease liability and a property, plant, and equipment right-to-use lease asset (the lease asset), except for intragovernmental and short-term leases. The proposed lease recognition requirements are presented in paragraph 19.

**Do you agree or disagree with the proposed lessee recognition of a lease at the beginning of the lease term as presented in paragraph 19? Please provide the rationale for your answer.**

**GSA's Response:**

We agree with the asset and liability accounts per this paragraph. For instances of bargain purchase options or ownership transfers, we agree that a lessee should record PP&E asset per SFFAS 6, par. 26.

We suggest additional clarification for 'beginning of lease term'. Numerous GSA leases are awarded that require significant build-out. In these instances availability of the use of asset is delayed upwards of 18-24 months during the construction period. We suggest clarification 'beginning of lease term', should be the date when the lessee establishes beneficial occupancy and has the right to begin using the lease asset.

**Q4.** The Board is proposing that a lessee should measure the **lease liability** initially at the present value of payments to be made for the lease term. In addition, the measurement of the lease liability should include the several types of payments that might be required by a lease. The proposed lease liability measurement and recognition requirements are presented in paragraphs 21– 29 and further explained in paragraphs A20 – A21.

**Do you agree or disagree with the proposed lessee measurement and recognition of the lease liability as presented in paragraphs 21 - 29 and further explained in paragraphs A20 – A21? Please provide the rationale for your answer.**

**GSA's Response:**

We agree that the lease liability should be recognized and measured as the present value of payments to be made by the lessee over the lease term. However, we suggest further clarification is needed specifically for 21 a, and 21 b.

Please clarify the term lease incentives used in 21 a. *Fixed payments, less any lease incentives (such as a cash payment or reimbursement of moving costs) receivable from the lessor.* Lease incentive is defined only in the section for Guidance for specific Intragovernmental Leases with paragraphs 82 as lessee and lessor in paragraph 90. Is this term not relevant to lessees with non-intragovernmental leases? If yes, then please provide further detailed guidance.

Our initial reading of 21 b, we assumed the Board intended for federal agencies to include operating costs and taxes -since variable payments dependent on CPI, - in the lease liability and associated right -to-use- lease asset. This seemed conflicting as these are period costs that are always expensed in the period incurred. It was not until we read further down the ED in paragraphs 51-56 that we realized the Board considers these as non-lease components are to be handled as separate contract from the lease component. We suggest clarification in 21 b. that operating costs are to be excluded from the lease liability or reference to paragraphs 51-56 in 21. *b. Variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the beginning of the lease.*

### **Additional views**

While we generally agree with the proposed measurement of lease liability stated in paragraphs 21-29 and discussed in A20 and A21, we suggest the Board revisit and reconsider requirements in multiple areas.

- We strongly believe paragraph 21 must acknowledge the excludable components of lease payments and directly reference the limitations as presented in paragraphs 51-58. Since leases regularly contain operating cost components in addition to the asset rental cost component as elements of a lease payment stream, we consider it imperative that the current narrative in paragraph 21 be amended to address the significant exclusions.

This proper understanding of major elements of lease payments that are includable and excludable under the proposed lease accounting requirements is so vital, we suggest it is preferable to have initial discussion of lease payments components in the Definitions section of the standard. It is critical for readers to have such awareness in order to understand the subsequent requirements for Recognition and Measurement for lessees and lessors, and for both asset and liability recognition, such as those prescribed in paragraph 21. As we understand the exposure draft and impacts of paragraphs 51-58, a Definitions narrative should clarify that elements in lease payments for period costs such as operating activities are excluded from the payment amounts used to determine asset and liability values. As an example, building lease payments often contain elements for

operating activities such as utilities, cleaning, maintenance, security, and other period costs like taxes. As we understand the ED, only elements of lease payments attributable to the cost of an asset should be included in calculations for asset and liability recognition.

- Regarding the discussions in paragraphs A20 and A21, there is concern that inclusion of option periods, based on an assigned probability of occurrence, is stretching the definition of liabilities to instances where there has been no management decision or legal commitment to bind an agency to long-term obligations of option periods. Resulting financial statements, even with proposed disclosures, could be a cause for confusion to readers. Application of a lease term limited to noncancellable periods would appear more consistent with elements of being bound to future payments. Inclusion of option periods in asset and liability calculations at inception of a lease does not appear consistent with the discussions in paragraph A20, regarding having an obligation at a determined date, since management must make further decisions at later dates to extend a commitment or not, into option periods. While the discussion in paragraph 21 likens leases to financing transactions, due to the inclusion of option periods, there would be little comparability between existing debt financing arrangements vs the lease liabilities that would be created in accordance with the proposed standard. As a comparison to debt financing, recognizing lease liabilities based on having options, would seem akin to recognizing liabilities at the date management might arrange a line of credit, where it is probable that the credit line will be used. For the FASAB to include option periods in lease liability calculations, further discussion is requested to provide readers a better understanding of consistency with FASAB SFFAC definitions of liabilities. The recognition of option periods is exacerbated by the proposed use of the likelihood of “probable” vs “reasonably certain” when determining inclusion of option periods, etc., and appears to create more concerns in relating the resulting lease liabilities to SFFAC liability definitions.

- It is also important to recognize the Federal acquisition process contains some bias towards longer-term contracting arrangements, such as using option periods in leases, to obtain better/reduced pricing and cost, and simplify the acquisition process by reducing the volume and amount of work that shorter, fixed terms would require. While the historical use of the option periods may lead to determinations that execution of options is probable, recognizing the potential cost of option periods as liabilities at the time of initial lease award is generally not matched with actual acquisition decisions and commitment to longer-term arrangements. By definition, having option periods allows management the discretion to change course due to future events, without penalty or incursion of cost.

- Paragraph 21a. indicates that lease incentives are to be excluded from the fixed payments amounts of a lease. We request that the Board consider clarifying the types of incentives that may apply under this exclusion. While items listed, such as cash payments or reimbursement for moving cost are understandable exclusions as they do not directly relate to the asset cost, there are also incentives where a lessor offers to make asset improvements at a lessee's request. With building leases, incentives may cover costs such as build-out finishes, customized elements such as labs or computer data centers,

furnishings, etc., likened to leasehold improvements, to improve useable space to higher levels of quality or meet requirements to meet a lessee's specific needs. While cost for such improvements may be imbedded in a lease payment stream as an incentive, we would suggest that incentives should not be excluded from the fixed payments stream when the incentive is applied to cover costs to bring an asset to specific condition required by a lessee to use the asset. We note that there is additional discussion of lease incentives and accounting treatment for them, applicable to intragovernmental leasing, in paragraphs 82, 83 and 90. Similar requirements are needed in the non-intragovernmental leases section, where we would expect such incentives to be much more prevalent.

· Also missing from paragraphs 21 through 29 is any discussion of lease concessions or leasehold improvements related to non-intragovernmental leases, comparable to discussions in paragraphs 82 through 86 and 91 through 93 for intragovernmental leases. Inclusion of such topics, as requirements for non-Fed leases is imperative, as they are regular conditions in those leases. Regarding leasehold improvements, additional discussion is needed related to subleases where improvements may be made to an asset that are for the intended use and benefit of (and generally funded by) a Federal sub-lessee, rather than for the benefit and use of the prime lessee. We would expect that a prime lessee would only record leasehold improvements for improvements intended for its own use, and sub-lessees would capitalize the cost of improvements made specifically for their benefit to eliminate duplicate asset recognition across Federal agencies. In instances where a Federal sublessee has such improvements to capitalize, we would recommend the Federal lessor (prime lessee) would expense and recognize revenues for any associated costs incurred through the underlying lease or other contracts, as cost are incurred and reimbursements earned in the period improvements are provided.

Paragraph 21.g poses similar concerns as discussed previously regarding to inclusion of option periods based on a "probable" likelihood. It is recommended that the higher level of reasonable certainty be applied for inclusion of such other payments anticipated by 21.g. in the liability calculation. The wording of 21.g needs further clarification, as the wording is overly vague and general. From the existing language, one might concluded "in the assessment of relevant factors" that additional payments will likely result from future negotiations to extend a lease, and though not yet negotiated in lease terms, could be estimated. We would strongly believe such subjective estimates would be excluded from lease liability calculations.

**Q5.** The Board is proposing that the future lease payments should be discounted using the rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the rate cannot be reasonably estimated by the lessee, the lessee's incremental borrowing rate (the estimated rate that would be charged for borrowing the lease payment amounts for the lease term) should be used. The specific proposed requirement is presented in paragraph 23.



- a. **Do you agree or disagree that the rate the lessor charges the lessee, which may be the interest rate implicit in the lease, should be used to measure the future lease payments as presented in paragraph 23? Please provide the rationale for your answers.**

**GSA's Response:**

We do not agree with using the rate implicit in the lease due to the difficulty of practical application. For the approximate 8000 real estate leases that may potentially be impacted by this standard, GSA would have difficulty assessing and tracking the rate charged from the lessor per lease. Since it would not be readily available, or identifiable to us, to do this calculation, we would need to know the fair value of each asset and from a global perspective we have no such database that houses 8000 lease asset's fair value.

- b. **Do you agree or disagree that the lessee's incremental borrowing rate should be used to measure the future lease payments when the lessor rate cannot be reasonably estimated by the lessee as presented in paragraph 23? Please provide the rationale for your answers.**

**GSA's Response:**

We agree to use the lessee's incremental borrowing rate, and GSA would assume that use of OMB historical rates in Circular A-94 would be appropriate.

**Additional Views**

There are multiple concerns and considerations we would want the Board to consider related to the discount rate determinations specified for use in paragraph 23. Selecting appropriate discount rates heavily depends on multiple factors for the Board to prioritize. For instance, one priority may be to ensure computed asset and liability values for balance sheet recognition are reasonably comparable with costs to directly build or acquire a similar asset. We recommend this element of comparability be key to the Board's decisions regarding the use of discount rates. Alternatively the Board may conclude that the lease asset and liability accounting is to be a more basic valuing of rights (to-use) conveyed by a lease, with reflection of the likely cash flows, and the present value of payment streams, without regard to whether the resulting value of rights has comparability to the cost of ownership or comparability of liabilities to traditional financing arrangements. It is requested that such issues be discussed in the standard, to allow readers to understand the basis for the Board's determination.

1. Q5 a. - While we generally agree that a lessor's rate or implicit rate is preferable to determine the true cost of an asset's acquisition, we find its use not reasonable when

option periods are included in the lease term for purposes of discounting future payments. When including option periods, the resulting asset values are likely to diverge significantly from comparable acquisition costs. In addition, inclusion of multiple option periods in a lease term gives the implication that a lessor is arranging long-term financing based on the longer option period basis and including such costs in its lease pricing. For large leasing actions, we regularly see lessors' financing arrangements to be more correlated to the base period of leases rather than the full option periods.

2. Q5 b. – For purposes of valuing assets and liabilities at comparable cost of a direct acquisition, the use of discount rates based on the lessee's incremental borrowing rate is not considered appropriate where the Federal government is the lessee. Due to the significantly lower cost of financing that the government enjoys compared to commercial rates, use of Federal financing borrowing rates in present value calculations will greatly overstate asset and liability values, compared to direct asset acquisition costs. Due to the significant disparity between interest rates available to commercial vs the Federal sector, if a lessor's financing rate or implicit rate are unknown, we would suggest the Board consider the use of a commercial equivalent, such as published average market rates for highly-rated (such as AAA) bonds of a comparable length. Use of such a commercially-based rate would be a better reflection of the interest financing being charged in a lease than the Federal incremental borrowing rate would provide.

**Further comments regarding Q5 are as follows:**

- If the primary purpose of the recognition is to value cash flows created by the rights-to-use, it may be preferable to use discount rates that would be reflective of the cost applicable to the Federal government's cash flows. Most lease vs own decisions are heavily influenced by budget limitations and the amount of up-front investment funding provided by Congress in appropriation acts. The use of the Federal incremental borrowing rate may be a better choice to simply reflect the value of cash flow streams rather than implying a commitment to long-term financing at lessor's rates.
- Inclusion of probable option periods in calculations will create significant disparity in comparability of assets values of leased vs owned assets when options periods substantially extend the base lease term. From the perspective of present value calculations, the alternative consideration of using a likelihood of "reasonably certain" instead of "probable" for determining the inclusion of options would somewhat reduce the risk of non-comparability.

Even use of the lessor's stated interest rate or the implicit interest rate, when all probable option periods are considered in calculations, will likely lead to frequent occurrences where the present value of the total lease payments is higher than an asset's market value. In long-term leases of real property, it is not unusual for lessors to recover substantial amounts of their capital investment in the base term of a lease. In many large leases, we see examples where the present value (PV) of lease payments is

over 80% of the fair market value (FMV) of the asset, using only the base term of the lease. In such instances, adding the PV of all probable option periods could create computed values well exceeding the asset's FMV. This condition would be further exacerbated if the Federal incremental borrowing rate is used, since the Federal rate is generally well below lessor borrowing rates, resulting in much higher PV calculations.

- For the Board's consideration, it is also important to be aware of significant complexities in determining lessors' interest rates and implicit rates. Generally such interest rate terms are not identified in lease agreements, and for many leases, there is not a readily determinable way to identify a comparable acquisition cost of an asset, for use in computing an implicit rate. Particularly with real property leasing, where the leased asset may only be a portion of a building, we request guidance be included in the standard to provide a basis to be used in determining estimates of the FMV component of implicit rate calculations.

- Such complexities raise particular concern when trying to interpret the first sentence of paragraph 23. With the wording in that first sentence "...which may be the interest rate implicit in the lease," it is not clear whether the Board is directing preferred use of a stated rate identified in a lease by a lessor, followed by a second choice of using an implicit rate where a stated rate is not known, or whether this quoted section is simply a comment that a stated rate may match the implicit rate. If the quoted section is simply a comment, then the requirement of the paragraph appears to assign discount rate prioritization to be 1) a lessor's stated rate in the lease, or if not known 2) the Federal incremental borrowing rate; with no requirement to calculate or use an implicit rate. If computations of implicit rates are expected, much greater detailed guidance would be needed in the standard. Since implicit rate calculations require determinations of a principle amount (such as FMV), the payment terms and payment amounts, guidance would be needed to prescribe the basis for determining FMV and which lease terms are applicable for computing future payments (such as all payments discussed in paragraph 21) and what lease term would be used for computing the implicit rate (apply paragraphs 14 and 15, or possibly limit to the base-term, or non-cancellable term, etc.). Using implicit rates will, by definition, ensure the PV of the future payments equals the FMV of the asset. Accordingly, if the definition of "future payments" for computing implicit rates match the requirements given for liability recognition, the calculated implicit rates would likely be exceptionally high, though the use of implicit rates would ensure the asset and liability values match the estimated FMV of the underlying asset. The potential for such calculated high implicit rates could very well create anomalies in the presentation interest expense recognition, as interest expense would calculate to be very large balances for entities with large amounts of leases, containing option periods.

Due to the requirements to include probable option periods in calculating liability balances, the requirements of paragraph 24 to recognize interest expense on the outstanding liability value will greatly increase costs being recognized, and in much earlier periods than is recognized in financial statements today. Taking an example of a

20-year base-term lease for a building, with a termination clause after year 15, and with two 10-year option periods that are considered probable of being exercised, the requirements of the ED would result in recognition of lease asset and liability for the PV of the full 40-year payment stream, even though the government is only committed to the first 15 years of the lease. The recognition of interest costs, beginning at the outset of such a long-term leasing arrangement seems to create a misimpression that the government is paying interest on the whole long-term liability value, and as if costs were being incurred on that value throughout the whole life of the lease.

**Q6.** The Board is proposing that the lessee should remeasure the lease liability at subsequent financial reporting dates if certain changes have occurred and are expected to significantly affect the amount of the lease liability. The Board is also proposing that the lease asset should generally be adjusted by the same amount when the corresponding lease liability is remeasured based on those changes. Additionally, if the change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the flows statement as a gain. The proposed lessee requirements for remeasurement are presented in paragraphs 25 – 29, 33, and further explained in paragraph A19.

- a. **Do you agree or disagree with the circumstances when the lessee must remeasure the lease liability as presented in paragraph 25? Please provide the rationale for your answer.**

**GSA's Response:**

We are unclear in paragraph 25a. what event(s) would meet the definition of modification referenced further down in par. 66 that would cause the lessee to remeasure the lease liability amount, and potentially cause recognition of a gain. As well as further definition and clarification is needed for the difference between modification in par. 66 vs partial termination in par. 64. Full termination is understood, but it seems as if reducing sq. footage, releasing one floor of a multi-floor building, could either be a modification or partial termination, either would provide the same accounting entry recognition. Expansion or increase of sq. footage of the leased space would provide for modification, so that may be the only difference in those two paragraphs 64-partial termination vs 66-modification. We suggest examples be provided or further clarification of the Board's intent of these paragraphs, all of 25, 64 & 66

We are unclear as to the remeasurement provision of the exposure draft outlined in paragraphs 25-29, as it relates to 25d. Initial reading we assumed paragraph 25 d., like 21 b. would include operating costs and taxes, that are adjusted annually for CPI. If we read paragraph 25 d we assume that annually the Board would expect us to remeasure the liability balance for CPI changes, however paragraph 26 would preclude us from doing such, if re-measurement is based solely on CPI adjustments;

*25. The lessee should remeasure the lease liability at subsequent financial reporting dates if any of the following changes have occurred and are expected to significantly affect the amount of the lease liability:*

- a. There is a change in the lease term due to a reassessment (see par. 18), a modification (see par. 66), or a termination (see par. 64).*
- b. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being paid has changed from probable to not probable, or vice versa.*
- c. An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from probable to not probable, or vice versa.*
- d. There is a change in the estimated amounts for payments already included in the liability.*
- e. There is a change in the interest rate the lessor charges the lessee, if used as the initial discount rate.*

*26. If a lease liability is remeasured for any of the changes in paragraph 25, the liability also should be remeasured for any change in an index or rate used to determine variable lease payments if that change in the index or rate is expected to significantly affect the amount of the liability. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable lease payments.*

It is not until you read contract/agreement with multiple component sections, starting on paragraph 51-54 do you realize that non-lease components such as operating cost and taxes would be excluded from the lease liability in par. 21 b & 25 d. We suggest in par. 21 b and 25 d, a reference to exclude such non-lease component as utility costs or taxes, as found in par 54.

**b. Would the requirements triggering remeasurement cause undue costs? Please provide the rationale for your answer.**

**GSA's Response:**

Yes these remeasurement requirements will be costly in IT system dollars needed to enhance current systems and added workload for our agency's CFO associates. GSA will have to write requirements and enhance our systems or build new to implement this standard, not only GSA's accounting system but additionally our Program office's feeder system(s). What becomes extremely problematic is the capturing of data from a specific

event(s) that is to trigger such remeasurement. During the course of an individual life of a lease we will need a sophisticated system to identify critical dates to automate the recording of accounting entries. Although the initial recording of a right - to-use - lease asset and the associated liability could be programmed to record the proper accounting entries and correct amounts at the implementation date, we are concerned with the accuracy and timeliness needed for the re-measurement requirements. With 8000 potential real estate leases impacted by this accounting standard, the dates for possible remeasurement will be potentially every business day. The remeasurement of the lease asset and liability amounts and potential gain or loss recognition, could be an area of control failure for federal agencies, if the data is input into the feeder systems incorrectly, or untimely.

- c. Do you agree or disagree with the effect of the remeasurement on the carrying value of the lease asset as presented in paragraph 33 and further explained in paragraph A19? Please provide the rationale for your answer.**

**GSA's Response:**

We are concerned that the remeasurement of the liability also requires the asset value to change and match the adjusted liability, which would alter methodology of recording assets at historical cost. This would also alter the amortization of the right-to-use-lease asset for depreciation purposes, several times potentially over the lease term. Are agencies to identify that such instances occur in their footnote section of the annual report that discloses such unique accounting methodologies for recording asset values?

**Additional Views**

While the factors identified to guide remeasurement of lease assets and liabilities appear conceptual appropriate, the practical application of remeasurement would appear to create a daunting challenge.

1. Q6.a. – The factors in paragraph 25. a. through c. are appropriate for consideration, as they are the major elements that would give rise to significant changes in estimated remaining liabilities for assets. The requirement of 25.d. would appear to capture virtually all other changes that would give rise to changes in the estimate vs actual lease payments, necessitating remeasurement in very high volumes for real property leasing, many of which would be inconsequential per instance. The requirement of 25.e might appear to be one that would occur very infrequently, however, for instances where the lessor's rate is an imputed rate, the calculated rate would change every time the payment stream changes, which would likely be a common occurrence.

2. Q6.b. Given the previous comment, we would expect a very high cost associated with remeasurement due to the anticipated volume. In many anticipated instances of minor changes, the associated cost would likely not support the resulting benefit.

However, performing the calculations would be required to know the actual impact to determine materiality of the change in various factors.

3. Q6.c. Our perspectives on the requirements of paragraph 33 depend on whether the original asset value was intended to be comparable to the underlying assets' FMV, or if it was simply a calculated PV of the cash flow, as discussed in responses to question 4 above. Where the valuation of the original leased asset was the FMV of the asset, we would not concur with adjusting the asset value due to liability remeasurement changes, other than for changes that substantially change the lease term or the FMV of the asset under lease. Other changes in the lease payment stream or discount rate would not appear to have an impact on valuing the underlying asset to warrant a change in the asset value.

If however, the originally recognized asset and liability were based on simple discounting of cash flows (especially if the lessee's incremental borrowing rate is used), disassociated from comparable asset acquisition costs, than a practice of carrying matching assets and liabilities is preferable, and requirements of paragraph 33 would ensure that matching occurs and eliminates unnecessary recognition of gains or losses.

**Q7.** The Board is proposing that a lessee should measure the lease asset initially as the sum of (1) the amount of the initial measurement of the lease liability, (2) lease payments made to the lessor at or before the beginning of the lease, less any lease incentives received from the lessor, and (3) initial direct costs that are ancillary charges necessary to place the lease asset into service. The proposed lessee lease asset measurement and recognition requirements are presented in paragraphs 30 – 34 and further explained in paragraph A22.

**Do you agree or disagree with the proposed lessee measurement and recognition of the lease asset as presented in paragraphs 30 - 34 and further explained in paragraph A22? Please provide the rationale for your answer.**

**GSA's Response:**

We agree that the lease asset should be measured initially for the amount of the initial lease liability. The present value of the cash flows under the lease agreement is the best method of approximating the value of the lease contract.

Please provide examples of such initial direct costs as described in paragraph 30 c.

*30. A lessee should initially measure the lease asset as the sum of the following:*

*a. The amount of the initial measurement of the lease liability (see par. 21)*

*b. Lease payments made to the lessor at or before the beginning of the lease, less any lease incentives received from the lessor*

*c. Initial direct costs that are ancillary charges necessary to place the lease asset into service*

Paragraph 32 describes bargain purchase option in a lease contract, without congressional approval GSA would not be able to purchase such asset, bargain or not. We assume that such constraints would not meet the definition of probable. We would appreciate any further guidance on this issue from the Board.

*32. The presence of a bargain purchase option in a lease contract/agreement is not equivalent to a provision that transfers ownership of the underlying asset; therefore a bargain purchase option should be treated as any other purchase option included in a lease. If the lease contains a purchase option that the lessee has determined is probable of being exercised, the lease asset should be amortized over the useful life of the underlying asset. In this circumstance, if the underlying asset is non-depreciable, such as land, then the lease asset should not be amortized.*

### **Additional Views**

We agree that initial measurement of lease assets and liabilities should be consistent, generally matching as proposed in paragraphs 30-34. However, the same concerns exist with asset valuation as is discussed above for liabilities, for questions 4 and 5, where inclusion of probable option periods in the lease term and calculations of PV's of payments could cause significant issues with non-comparability of the asset values computed in accordance with this ED vs the FMV of underlying assets being leased. Carrying asset values for leased assets where exercising options is probable but not reasonably certain, would seem somewhat contradictory to the discussion in paragraph A-22. Given the A-22 discussion of SFFAC 5 and definitions including the ability to control an asset, it again (as with liabilities) appears mis-timed, for the ED to effectively combine the right to exercise an option with the right to actually use an asset, based on a simple probable (>50%) basis. Until management makes any determinations to exert the future control over an asset, via at least expressing the intent to exercise options, it does not seem appropriate and of likely confusion to readers, that assets may be recognized prior to that decision-making having occurred.

We also request that the final standard be further clarified regarding amortization of the asset, to identify whether amortization is to be netted directly against the asset, reducing the asset's carrying value over time (which is assumed), or recorded in conjunction with a contra-asset, similar to PP&E presentation.



**Q8.** The Board is proposing that at the beginning of the lease term, a lessor should recognize a lease receivable and deferred revenue, except for intragovernmental and short-term leases. The proposed requirements for the measurement and recognition of the lessor lease receivable and deferred revenue are presented in paragraphs 36 – 48 and further explained in paragraphs A23 - A24.

**Do you agree or disagree with the proposed lessor measurement and recognition of the lease receivable and deferred revenue as presented in paragraphs 36 - 48 and further explained in paragraphs A23 - A24? Please provide the rationale for your answer.**

**GSA's Response:**

In general, we agree with the lessor's accounting treatment indicated in paragraphs 36-48, however, we suggest the Board reconsider the lease term applicable to the lessor's calculations of receivables and deferred revenues. For purposes of conservatism, it is suggested that a higher level of confidence be required for lessors to include option periods in their lease recognition calculations, to ensure a higher degree of confidence, such as a "reasonably certain", rather than the lower "probable" (>50%) likelihood indicated in paragraph 14. In general, we believe it will be difficult for a lessor to judge probability that a lessee will exercise option periods. It would seem reasonable to liken the exercising of lessee' options to contingent rentals, which would not qualify for receivable recognition by lessors.

Regarding paragraph 46, the last sentence requires rewording to indicate that deferred revenue is to be amortized and recognized as earned revenue in a systematic and rational manner over the term of the lease. The existing language makes an incorrect statement about when deferred revenue is to be recognized (which should be at the same time as receivable recognition in accordance with paragraph 36), rather than addressing when revenue is subsequently earned.

**Q9.** The Board is proposing to define a short-term lease as a lease that, at the beginning of the lease, has a maximum possible term under the contract/agreement of 24 months or less, including any options to extend, regardless of its probability of being exercised. The proposed requirements for the measurement and recognition of a short-term lease are presented in paragraphs 59 – 61 and further explained in paragraph A25.

**Do you agree or disagree with the proposed definition and measurement and recognition of a short-term lease as presented in paragraphs 59 - 61 and further explained in paragraph A25? Please provide the rationale for your answer.**

**GSA's Response:**

We disagree. GSA would like for the Board to consider the volume of real estate leases in our portfolio that would be impacted by this standard, about 8000. We are pleased the Board considers exclusion for those under 24 months, but would propose the Board consider redefining short term leases as those with base terms 5 years or less. If at a minimum the implementation guidance required only leases with terms greater than 5 years. This would tremendously help reduce the volume of leases that we would be required to track with implementation of this standard. Such as with the Census', when they require space, and is intended for a very short term period, we would not want to recognize such asset and liabilities.

In paragraph 59 related to short-term leases, what is meant by a 'notice period?' 59. *A short-term lease is a lease that, at the beginning of the lease, has a maximum possible term under the contract/agreement of 24 months or less, including any options to extend, regardless of its probability of being exercised. For a lease that is cancelable by either the lessee or the lessor, such as a month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods. For a lease that is cancellable only by the lessee, the maximum possible term should be evaluated under the requirements of the lease term as defined in paragraph 14*

### **Additional Views**

We believe the proposed definition and measurement of short-term leases should be expanded to lessen the burden of the alternative lease accounting requirements. The following are suggestions for consideration to reduce the volume of leases requiring recognition as right-to-use assets, yet capture material transactions:

- It is suggested that short-term leases include those with base periods of 5 years or less.
- We would suggest consideration of the term of the lease, as compared to the useful life of the underlying asset, be included in determining the short-term nature. For instance, lease periods (base period) in excess of 50 percent of an asset's remaining life maybe useful as a determiner, whereby a period in excess of 50% of the remaining life indicates use for a period that might indicate a need for comparisons of costs of leasing vs ownership.
- We suggest the likelihood of option periods being exercised should be included when calculating the maximum possible period, for determining short-term leases. Using the existing wording of the maximum possible period to include options regardless of likelihood of being exercised will create the additional workload of right-to-use asset and liability recognition for many leases expected to very short in nature. Accordingly, it is suggested that the wording of the maximum possible period be replaced with the period that is reasonably certain. As an example, an IT equipment lease could be written with a base year and 4 annual option periods, for equipment expected to be replaced within 2

years, but with an expected useful life of 3 years before becoming technically obsolete and an economic life of 5 years. While it is not probable that the lease will last more than two years, full asset and liability recognition would be required by the standard in accordance with the short-term definitions, with a probable lease term of only 2 years. This appears to create unnecessary additions to the volume of assets requiring the more complex accounting treatment.

It is unclear whether the use of the term “noncancellable period” in paragraph 59 is the same as that term is as defined by paragraph 15. The last sentence of paragraph 59, with reference to paragraph 14 (which would appear to require application of the definition of paragraph 15) made interpretation difficult. Greater definition of requirements is requested to clarify the last sentence of the paragraph and its language that seemingly supersedes the “maximum possible” terminology of the first sentence of the paragraph, for instances where only the lessee has options to extend lease periods.

**Q10.** The Board is proposing to establish distinct standards for intragovernmental leases. An intragovernmental lease is a contract or agreement that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47, Reporting Entity. The proposed requirements for the measurement, recognition, and disclosure of intragovernmental leases are presented in paragraphs 75 – 95 and further explained in paragraphs A26 - A29.

**Do you agree or disagree with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases as presented in paragraphs 75 - 95 and further explained in paragraphs A26 - A29? Please provide the rationale for your answer.**

**GSA's Response:**

We agree with the general concepts proposed for intragovernmental leasing, particularly that such leases would predominantly be treated as operating leases. Specific issues with certain requirements are as follows:

- Regarding paragraph 78 we recommend clarity regarding the recognition of expenses being based on “specifics of the lease provisions.” It is unclear whether that language effectively means entities should record cost to match cash flows (payment provisions) or some other provisions of the lease. We would suggest that costs should be recognized evenly over the lease term, or in relationship to levels of asset rental services provided over the lease term (variations may exist in services provided from period-to-period or the quantity of assets being supplied may be adjusted, such as for changes in assigned

square footage in buildings). We would suggest that a cash flow based approach may not properly match costs to services and assets being provided.

· In paragraph 86 we recommend clarity regarding recognition of capitalized leasehold improvements. The financing of such improvements can take various forms, such as 1) upfront funding being provided by lessees either in advance of, or at the time of acceptance of the improvements; 2) amortization of the leasehold improvement over the entire base period of a lease; or 3) amortized over a term shorter than the entire lease term. Each of these conditions would appear to require unique recognition treatment. In the first instance, the proposed language for the standard would appear to apply. For the second instance, there may be no unique treatment warranted, as costs would already be spread evenly over the lease term based on the lease provisions. In the third instance, there would appear to be a need to separately recognize costs and liability for the future payments related to the improvements, with amortization over the lease period.

With leasehold improvements, we request further clarity to determine if the definition includes costs for items like building construction and build-out costs necessary to develop an asset to a basic level of usability (such as “plain vanilla” office space). Alternatively, leasehold improvements may be limited to only those improvements made to bring an asset to a higher level of suitability for a lessee’s specific needs. Such clarity in definitions would be used to differentiate between certain payments and costs that may qualify as prepaid expenses (discussed in paragraph 78) related to the development of a basic asset for lease, vs the additional costs for improvements that take an asset to higher levels than a basic operating asset. We would suggest that costs incurred to bring an asset to basic operating condition should be consider costs of the asset being leased, with amortization of such costs as prepayments when payment is required other than amortization with the cost over the lease term. We also suggest that leasehold improvements only include costs above and beyond those incurred to bring an asset to basic operating condition.

· Similarly to the leasehold improvement discussion, clarity for lessors, as discussed in paragraph 93 is requested to ensure proper understanding of the requirements. We recommend that improvement's only be capitalized by lessors when improvements are to enhance or extend the life of assets that are general in nature to the asset, and not specific to a particular lessee’s needs. We would recommend that capital improvements to a lessor’s owned assets not be capitalized for improvements made to meet a specific lessee request, particularly when directly funded by the lessee. In subleasing arrangements where a Federal entity is subleasing an asset it leases from a non-federal entity, we further recommend that capitalization of leasehold improvements should only be applicable to entities receiving the benefit of the improvements. Accordingly, when improvements are funded on a pass-through basis from the actual Federal tenant/sublessee to the non-Fed lessor, improvements would only benefit the tenant/sublessee, making the costs capitalizable in the sublessee’s records. Such costs

capitalized by subleases would be expensed by the prime federal lessee (landlord to the sublease tenant), who derives no direct benefit from those improvements.

- Similar to discussions above related to paragraph 78, we recommend that requirements be further defined to clarify the income recognition of “based primarily on the provisions of the lease.” As suggested for expenses, we recommend similar concepts be applied have income earned evenly over the term of the lease, with considerations for variations in service delivery that may occur over the lease term. We would have concerns if the Board intends that the “provisions in the lease” are equated to the timing and amount of payments that may not reflect the substance of services and rights being provided.
- For intergovernmental leasing, please add clarity regarding the definition of “lease term” to confirm whether or not the definitions in paragraph 14, 15 and 16 apply to intragovernmental leases, especially conditions related to probability of lease options. An example of why this clarification of definition is needed relates to paragraph 95 and the disclosure of future lease rental income over the lease term. This lease term would require definition for entities to determine when conditions require inclusion of cancellable terms vs non-cancellable terms (with current disclosure requirements only covering non-cancellable terms).
- There are also conditions in some intragovernmental leases, that transfer the asset to the lessee, at the end of the agreement term. Comparable to the requirements of paragraphs 20 and 37, we recommend that such agreements be treated as a purchase and sale between the Federal lessee and lessor, respectively, rather than following operating lease treatment.

**Q11.** The Board is proposing that leases unexpired at the beginning of the reporting period in which the standard is implemented be recognized and measured using the facts and circumstances that exist at the beginning of the reporting period. The proposed implementation requirements are presented in paragraphs 99 -100.

**Do you agree or disagree with the proposed prospective implementation approach as presented in paragraphs 99 - 100? Please provide the rationale for your answer.**

**GSA’s Response:**

We believe the implementation requirements of the ED will be unnecessarily difficult to accomplish for existing leases. We recommend the Board consider alternatives such as discussed related to question 9, and consider extending the periods reportable as short-term leases with base periods remaining of at least a five year period from the date of implementation. In addition, much further clarity would be required to provide guidance related to determination of discount rates

to be applied when recognizing leased assets and liabilities, particularly to compute imputed rate for remaining lease periods. Please refer to additional discussions addressed in question 5, for issues requiring further details being needed to support computation of imputed discount rates. We have significant concerns regarding existing leases as posing tremendous challenge to collect and capture necessary data for many old leasing records to enable the agency to calculate lease asset and liability balances. Particularly information related to future option periods is not captured today in any form that can be used for computations for financial recordkeeping, requiring manual review, analysis and data collection from all leases. The resources expected for such a task may very well be cost prohibitive.

**Q12.** The Board is proposing that the requirements of this Statement be effective for reporting periods beginning after September 30, 2018. The proposed effective date is presented in paragraph 101.

**Do you agree or disagree with the proposed effective date as presented in paragraph 101? Please provide the rationale for your answer.**

**GSA Response:**

We disagree with the proposed effective date presented in paragraph 101 as it appears unreasonable for the implementation of this standard. For agencies and departments with large volumes of leasing activity, significant new automation will be required to handle the large volume of ongoing lease activity and changes that will now require accounting recognition. The staffing resources anticipated to manage the implementation requirements for existing leases is expected to be quite significant in size and cost (see related issues noted in question 11 above). The long-term operating environment to manage lease data and lease accounting requirements will demand increases for associated staffing resources as well.

Timeframes for development of automated systems functionality is particularly problematic. For large systems modifications and new systems development that is envisioned to meet the requirements of this proposed standard, the Federal budget cycle is a key driver to consider. At the earliest, agencies and departments would need to submit proposals in their FY 2019 budget requests due for submission in August of 2017. To have funding requests included in the 2019 submission, agency financial experts would need to work very quickly with IT experts to develop rough-order-of-magnitude estimates, to address requirements based on this FASAB ED (since a final standard is not expected until well after submission of budget requests). Such budget submissions, if successfully approved, would likely provide funding to start system development activities sometime early in FY 2019. Given the size and complexity of

envisioned systems changes, it could easily take more than one year after receiving budgetary funding to complete systems development. We can already anticipate the need for significant new systems functionality in just the business systems that capture lease contact data where GSA is a lessee and systems that capture agreement data where GSA is a lessor. Additional requirements and implementation schedules would need to be arranged with the Federal community's COTS vendors who provide core accounting systems. While these vendors are not directly limited by the Federal budget cycle to update the baseline functionality of their systems, implementation and systems configuration to meet specific agency circumstances does generally depend on funding that Federal agencies must reimburse to vendors. Even when COTS vendors add functionality to their systems, there are often delays in agency implementation of new versions of software, in order to accommodate the extensive lead time for testing and configuration. Accordingly, if all implementation activities proceed smoothly and funding is provided in a timely manner (following the budget cycle) and the FASAB desires implementation at the start of a fiscal year, we suggest implementation should not be required prior to FY 2021.

Lastly, of particular risk to Federal entities is a current environment that continues to pursue cost cutting in overhead functions, such as CFO activities and IT costs, making expansion of activities and new systems face stringent oversight. With the upcoming change in Executive Branch administrations, any appetite for funding such initiatives is unknown.

**Additional comments for the Board's consideration not related to specific questions 1-12;**

**Paragraph 63.** We disagree that expansion of sq. footage to add an additional room or floor to an already existing lease, should create a separate lease. GSA leasing practices would amend an existing lease to include the expansion space and adjust the new annual rent, typically within the existing lease term. GSA would not have negotiated a new lease with the lessor, but amended the existing lease, to require our business practices to change due to this accounting standard is not reasonable.

**Paragraph 66.** Provide clarifying guidance between the difference of lease modification found in par. 66 that results in potential gain, and par. 63 that requires lessee to create a separate lease. ....LEASE MODIFICATIONS / LESSEE TREATMENT OF LEASE MODIFICATIONS

*66. A lessee should account for a lease modification by remeasuring the lease liability. The lease asset should be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. However, if the change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the flows statement as a gain.*



**GUIDANCE FOR RECOGNITION OF SPECIFIC INTRAGOVERNMENTAL LEASE TOPICS, Paragraph 79-86, as well as 90-94.** This includes such topics as lease incentives and lease concessions,... why is this not in a general section? are these topics only relevant to intragovernmental leases? Please clarify.

We are concerned about the reduction for lease incentives received from the lessor. As defined in paragraph 82. *Lease Incentives – Lease incentives include lessor payments made to or on behalf of the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee; for example, moving costs, termination fees to lessee's prior lessor, or lessor's assumption of the lessee's lease obligation under a different lease with another lessor.* Would such items as a warm lit shell credit provided by the lessor converted into tenant improvements, meet such definition? These tenant improvements are amortized in the annual rent typically over the noncancellable term of the lease. What are the journal entries to record such lease incentives, (par 83)? In instances that the lease meets the definition of right- to -use lease asset how would the Board expect recording of the lease incentives, in guidance paragraph 83 it states to recognize as reductions of lease rental expense by the lessee on a straight-line basis over the lease term, but there would not be a lease rental expense as the accounting treatment would have us recognize an asset and liability where monthly payments to the lessor are reduction of principal liability and recognition of interest expense accrued on the unliquidated liability.

We are also concerned with the accounting treatment of lease concessions. As described in paragraph 85. lease concessions should be recognized as reductions of lease rental expense by the lessee on a straight-line basis over the lease term. As noted for lease incentives, how would the Board expect recording of lease concessions for leases that meet the definition of right-to -use lease asset, as there would not be a lease rental expense as the accounting treatment would have us recognize an asset and liability, where monthly payments to the lessor are reduction of principal liability and recognition of interest expense accrued on the unliquidated liability.





Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6H19  
441 G Street NW, Suite 6814  
Washington, D.C. 20548

Dear Ms. Payne:

GSA appreciates the opportunity to provide perspective on the Federal Accounting Standards Advisory Board (FASAB) Exposure Draft (ED), *Accounting for Leases*. Our assessment questions whether the effort poses more operational burdens than added value to our organization. In our statements below, we raise concerns about the context of the change and cost-benefit of implementation in our organization.

The purpose of private industry financial reporting and federal government financial reporting differ in some aspects for our stakeholders. In the federal space, we see our role as demonstrating stewardship and accountability of taxpayer dollars within applicable laws. This role is paramount because we understand that taxpayers assess our operations against our ability to meet mission, while private sector financial reporting is an indicator of an entity's financial prospects and future viability. We believe these differences in stakeholders and purpose of financial reporting must be considered when proposing accounting changes.

GSA anticipates significant effort and cost to comply with the standard, with little increase in value. Implementation would require a full inventory evaluation, reclassification of assets, value assessments, computation of financial impacts, and extensive financial system modification. Beyond initial assessments and changes, upholding the standard would require us to modify our business processes and audit compliance; increasing operational costs in a declining budgetary environment. Inversely, GSA sees no net gain to our financial statements by implementing the standard, seeing reporting changes as potentially misleading and not providing greater insight or better information to our stakeholders. As an aside, GSA already presents future minimum rental payment projections in footnotes to the financial statements, meeting the transparency intent of the proposed standard.

In summary, based on limited benefits and significant costs to implement the proposed standard, GSA recommends reevaluation of the Exposure Draft. We believe our accounting and reporting around leases meets the needs of our stakeholders.

GSA additionally endorses the Department of Defense's responses to FASAB's Leasing Exposure Draft, attached letter dated 05 January 2017.

Thank you for considering the Agency's comments. If you have any questions, please contact Bob Smalskas, Accounting and Financial Reporting Director on 202 357-9518.

Sincerely,



Kathy Hammer  
Director, Office of Financial Management

Enclosure