

FASAB Exposure Draft: Questions for Respondents due January 6, 2017

Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

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| Accounting Firm | <input type="checkbox"/> | |
| Federal Entity (user) | <input type="checkbox"/> | |
| Federal Entity (preparer) | <input checked="" type="checkbox"/> | |
| Federal Entity (auditor) | <input type="checkbox"/> | |
| Federal Entity (other) | <input type="checkbox"/> | If other, please specify: <input type="text"/> |
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Please provide your name.

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Organization:

- 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.

HHS agrees with the definition of lease. It appears to be specific enough to limit agreements that should not be considered leases and to capture those that should be included.

- 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

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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.

HHS agrees with the proposed guidance on determining the lease term and with the definition of the noncancelable period. The Board's position is in agreement with generally accepted accounting principles.

- 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.

HHS agrees with the recognition of a lease asset and a lease liability by the lessee at the beginning of the lease term. This will make lease accounting in the Federal government broadly consistent with public, state and international accounting standards.

- 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.

HHS generally agrees with the types of payments that are to be included in the lease liability. Some of these amounts require a lot of judgment. We advocate for simplicity wherever possible.

- 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**

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payments as presented in paragraph 23? Please provide the rationale for your answers.

HHS agrees. This treatment agrees with the current treatment of capital leases.

- 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.**

HHS agrees. This agrees with the current treatment of capital leases.

- 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.**

HHS generally agrees with the circumstances for remeasuring lease liability. It follows the generally accepted principles of accrual accounting.

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

Yes, many of the requirements for remeasuring would cause undue costs because it would require continuous analysis of each leased asset. The benefit of extending or reducing the life of most leases would not outweigh the cost and effort involved in evaluating the circumstances of each lease.

- 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.**

HHS agrees that the carrying value of the asset should generally be adjusted to agree with remeasurement of the lease liability in order to match amortization expense with the appropriate accounting period.

- 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

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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.

HHS agrees. In general, we agree that the value of the asset should be adjusted when there is a change in the lease liability or the value of the leased asset changes,

- 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.

HHS agrees. The requirements seem to represent the lessor side of the transaction appropriately.

- 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.

HHS agrees with the proposed definition and measurement and recognition of the short-term lease as presented. HHS strongly agrees that that 2 years rather than 1 year should be the criteria for the short term lease. For simplicity, HHS also recommends that any month to month extension options for the lessee be excluded from the term of the lease for purposes of classification as a short term lease.

- 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,

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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.

HHS agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases. We note that close communication between intragovernmental lessors and lessees will be required to avoid intragovernmental reporting differences due to the timing of reporting lease related transactions.

- 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.

HHS agrees with the proposed prospective implementation approach. This is a cost saving approach compared to recognizing a change in accounting principle and is consistent with the treatment of new leases.

- 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.

HHS would prefer later implementation on September 30, 2019. We are not sure how our accounting and property systems will need to be changed. There are probably very many leases for relatively small equipment like copiers. These smaller items of equipment are not excluded by the standard.