

**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."**

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
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Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
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Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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**Please provide your name.**

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.**

SSA Response: Agree. The use of "contract" and "agreement" results in less confusion when applying the definition to lease agreements, and allows for the inclusion of contracts and agreements that are essentially acting like leases, but not currently meeting the definition of a lease. The proposed definition is more concise and captures the diversity of Federal leasing activities.

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- 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 paragraphs A16 – A18? Please provide the rationale for your answer.**

SSA Response: Agree. The proposed lease term guidance allows agencies to identify the most likely period of time that the Federal entities are entitled to the right to use the leased asset. The lease term guidance makes considerations for unique aspects of Federal activity including the application of special provisions, such as cancellation clauses for use when the appropriation of funds does not occur. In addition, FASAB's probability threshold, of more likely than not (>50 percent probability), when determining whether to include a period covered by renewal or termination options in the lease term, offers a defined threshold for agencies to use to gauge how long the lease is expected to be in effect.

- 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.**

SSA Response: Agree. The lessee should record both the right-to-use nonfinancial asset and its corresponding liability at the beginning of the lease term, as that is the appropriate time to record the transaction.

- 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.**

SSA Response: Agree. At the point the lease is created, the lessee has the right to use the asset and the obligation to pay exists; thus, the liability is established, as defined in

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SFFAC 5. The present value of the future lease payments covered under the lease term appropriately reflects the liability under the lease agreement.

**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.**

SSA Response: Agree. Using the lessor's interest rate to discount future lease payments will most accurately reflect the value of the leased asset.

- 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.**

SSA Response: Agree. When the lessor's interest rate is unavailable, using the lessee's borrowing rate is a reasonable and objective alternative.

**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 re-measure the lease liability as presented in paragraph 25? Please provide the rationale for your answer.**

SSA Response: Agree. The circumstances defined as triggering the lessee's re-measurement of the lease liability are valid and appropriate, as they would result in a change in the present value of the lease liability, future payments of that liability, and the value of the leased asset.

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

SSA Response: No. With the exception of the lessor interest rate changing, the lessee should be aware of any of the other events triggering re-measurement, and the cost of calculating the new lease liability and asset should be minimal. Additionally, if the lessor interest rate is difficult to determine, the exposure draft allows for use of the lessee's borrowing rate, which should also be of minimal cost to re-measure.

- c. Do you agree or disagree with the effect of the re-measurement 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.**

SSA Response: Agree. Adjusting the carrying amount of the leased asset by the same amount as the liability (except in cases of impairment and negative asset value), maintains consistency with the methodology for establishing the original asset value, and would accurately reflect the value of the asset the lessee has a right to use.

- 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.**

SSA Response: Agree. This is consistent with the SFFAC 5 definition of an asset, defined as “a resource that embodies economic benefits or services that the Federal Government controls.” The amount recognized as the lease liability would most closely reflect the amount paid for the lease asset, as this is consistent with historical cost accounting applicable to property, plant, and equipment.

- 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.**

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SSA Response: Agree. The result of the exposure draft is that revenues and expenses for lease transactions are treated consistently for financial reporting purposes between the lessor and lessee. Just as the lessee's obligation to make future payments is a liability, the lessor's right to receive those payments is an asset.

- 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.**

SSA Response: Agree. The definition of short-term leases is in line with generally accepted accounting principles cost-benefit constraints, which reduces the cost of Federal entities implementing and administering leased asset accounting for leases with a useful life or maturity of less than or equal to 24 months. This exposure draft also aligns lease guidance with the general property plant and equipment standard of expensing assets with a useful life of 24 months or less; thus, allowing for the accounting treatment of similar situations to be applied consistently.

- 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.**

SSA Response: We agree that FASAB should account for intragovernmental leases differently than leases between Federal and non-Federal entities. Because intragovernmental lease transactions net at the government-wide consolidated reporting level, the cost would far exceed any benefit derived by the lessee recognizing a lease asset and liability for intragovernmental leases. We also agree that it is appropriate to treat rent increases as an economic event to be expensed, while treating lease incentives and concessions as a reduction of the rental expense applied on a straight-line basis over the lease term.

Generally, we agree that for intragovernmental leasehold improvements, a leasehold improvement if made by the lessee and extends the useful life of the leased property or

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expands/improves the capacity of the leased property, the lessee should amortize the leasehold improvement over the shorter of the useful life or remaining lease term.

However, amortizing intragovernmental leasehold improvements may not always be cost effective for Federal entities; as for example, our agency has over 1,000 intragovernmental leases for space occupied, which we currently amortize at a summary level.

- 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.**

SSA Response: Agree. The prospective implementation of changes based upon this exposure draft is consistent with SFFAS 21 for reporting changes in accounting principles. Any existing contract or agreement would have reflected the revenue or expense transactions covering all prior year activity; thus, any adjustment for prior years should be immaterial. Additionally, the cost of revising prior year statements to reflect the additional lease liability/asset would far outweigh any benefit this would provide to readers of the financial statements. Therefore, the prospective implementation approach is appropriate.

- 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.**

SSA Response: Agree. The proposed effective date allows adequate time for Agency implementation.