



LEASES IMPLEMENTATION GUIDANCE UPDATES

AMENDMENTS TO TECHNICAL RELEASE 20

Federal Financial Accounting Technical Release 22

October 12, 2023

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget, the Government Accountability Office, the Chief Financial Officers Council, and the Council of the Inspectors General on Integrity and Efficiency, as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the FASAB. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation that are not specifically or fully discussed in federal accounting standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from [FASAB's website](#).

SUMMARY

This Federal Financial Accounting Technical Release (TR) amends TR 20, *Implementation Guidance for Leases*, by incorporating minor conforming amendments related to Statement of Federal Financial Accounting Standards (SFFAS) 61, *Omnibus Amendments 2023*, inserting additional leases implementation guidance questions and answers within the related topic areas, and providing clarifying amendments / technical corrections on certain existing questions and answers under TR 20.

MATERIALITY

The provisions of this Technical Release need not to be applied to information if the effect of applying the provision(s) is immaterial.¹ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

¹ Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

TABLE OF CONTENTS

Summary.....4

Technical Guidance6

 Scope Of Technical Guidance6

 Conforming Amendments to TR 206

 Updates to TR 20.....6

 Clarifying Amendments and Technical Corrections to TR 209

 Effective Date.....10

Appendix A: Basis for Conclusions11

Appendix B: Abbreviations.....14

TECHNICAL GUIDANCE

SCOPE OF TECHNICAL GUIDANCE

1. Readers of this Federal Financial Accounting Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but does not substitute for or take precedence over the standards. This TR clarifies but does not change guidance provided in SFFAS 54, *Leases*.
2. SFFAS 54 provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports and includes appropriate disclosures.
3. Questions and answers in TR 20, *Implementation Guidance for Leases*, provide guidance for applying the accounting and financial reporting requirements for leases in accordance with SFFAS 54.
4. This TR updates TR 20 with one conforming amendment, seven updates (that is, additional questions and answers), and two clarifying amendments / technical corrections.

CONFORMING AMENDMENTS TO TR 20

5. Paragraph 78 of TR 20 is amended as follows:

78. A contract conveys the right to use a building for 30 years and the attached parking garage for 15 years. There is no stated interest rate included in the lease agreement. Should the discount rate be separately assessed for each component?

Yes. Paragraph 74 of SFFAS 54 requires that lease contracts involving multiple underlying assets be accounted for as separate lease components if the underlying assets have different lease terms. The ~~interest-estimated incremental borrowing~~ rate in this scenario would likely differ between the two components because of the considerable difference in lease terms. When the interest rates for each component are not stated in the lease agreement, the ~~interest-estimated incremental borrowing~~ rate for each component should be based on the interest rate on marketable Treasury securities at the commencement of the lease term with a similar maturity to the term of the lease ~~used~~, in accordance with paragraphs 42-42C (for lessees) and 59-59C (for lessors).

UPDATES TO TR 20

6. Paragraphs 8A, 8B, and 11A are added to TR 20 (under the topic area for scope and definitions) as follows:

8A. A reporting entity enters into a 15-year contract with a utility company for the right to use a fiber optic cable network in exchange for consideration. The contract does not provide the reporting entity with specific, physically distinct dark fibers; nor does it provide the ability to deny and regulate the access of others to the fiber optic cable network. Rather, the utility company makes decisions about the transmission of data. For example, the utility company lights the fibers with its electronic equipment. Does this contract convey control and meet the definition of a lease?

No, this contract does not convey control or meet the definition of a lease. Paragraph 2 of SFFAS 54 provides that the underlying asset should be identified either through explicit specification in the contract or implicit specification at the time the underlying asset is made available for use. The contract in this scenario does not specify, either explicitly or implicitly, the underlying asset. Relatedly, unlike the scenario under paragraph 8B below, the contract under this scenario does not meet the control criterion under paragraph 3.b of SFFAS 54 (criterion 2 of 2). The reporting entity cannot deny or regulate the access of other parties to the economic benefits or services of the underlying asset, as the contract does not convey control of specific, physically distinct dark fibers. The utility company makes decisions about the transmission of data. In this case, the utility company lights the fibers with electronic equipment under its control and makes decisions about which fibers are used to transmit data. In this scenario, the data transmission is effectively a service, consistent with paragraph 4 of SFFAS 54.

8B. A reporting entity enters into a 15-year contract with a utility company for the right to use specific, physically distinct dark fibers within a larger fiber optic cable connecting two operational sites (over a specifically identified route) in exchange for consideration. The reporting entity makes the decisions about the use of the fibers by connecting each end to its electronic equipment. For example, the customer lights the fibers and makes decisions about data transmission. Does this contract convey control and meet the definition of a lease?

Yes, this contract conveys control and meets the definition of a lease. Paragraph 3 of SFFAS 54 provides that the reporting entity should assess whether the contract gives the lessee both of the following when determining whether a contract or agreement conveys the right to control the use of the underlying asset:

- a. The right to obtain economic benefits or services from the use of the underlying asset as specified in the contract
- b. The right to control access to the economic benefits or services of the underlying asset as specified in the contract

The reporting entity has the right to obtain economic benefits or services of the underlying asset (criterion 1 of 2). Through a lease contract the government may control access to the economic benefits or services embodied in an underlying asset it does not own. In this scenario, the contract allows the reporting entity to deny or regulate the access of other entities to the economic benefits or services of the dark

fibers, and the customer has the right to direct the use of the fibers. For example, the customer lights the fibers and makes decisions about data transmission (criterion 2 of 2). Therefore, the control criterion is met. Relatedly, in accordance with paragraph 2, the contract in this scenario specifies, either explicitly or implicitly (in this case, explicitly) the underlying asset.

11A. A reporting entity (lessor) enters into an agreement that allows a private party (lessee) to use one floor of the reporting entity's building at a market rate. The contract states that the space is to be used only for a restaurant. Does the contract convey the right to control the use of the underlying asset?

Yes. In accordance with paragraph 3 of SFFAS 54, the reporting entity should assess whether the contract gives the lessee both the right to obtain economic benefits or services from the use of the underlying asset as specified in the contract (emphasis added) and the right to control access to the economic benefits or services of the underlying asset as specified in the contract (emphasis added). In this example, the paragraph 3 control criterion is met notwithstanding the parameters of the contract regarding the nature and manner of use (see also TR par. 7.b).

7. Paragraph 24A is added to TR 20 (under the topic area for lease term) as follows:

24A. A lease contract states that it will remain in effect for three years unless terminated before then. The contract allows the lessee to terminate the lease for any reason with 60 days' notice. The contract allows the lessor to terminate the lease with 60 days' notice only if the lessee defaults on payments. It is probable, based on all relevant factors, that the lessee will not exercise its termination option at any time during the three year contract. Is this a short-term lease?

No. Although the lessee has an unconditional right to terminate, the lessor does not have an unconditional right to terminate because the lessor is only allowed to terminate on the condition that the lessee defaults on payments (see par. 19.b of SFFAS 54). Accordingly, there are no periods for which both the lessee and lessor have an option to terminate without permission, and paragraph 19.a criteria for excluding cancelable periods from the lease term are not triggered.

8. Paragraph 32A is added to TR 20 (under the topic area for short-term leases) as follows:

32A. For the past 20 years, every two years a reporting entity (lessee) has consistently entered into new 24-month noncancelable lease contract with a lessor for the use of building space. The lease contract for the building space does not contain options to extend beyond the 24-month noncancelable lease term. The reporting entity expects to continue this practice. Is this a short-term lease?

Yes. According to paragraph 14 of SFFAS 54, the lease term is the noncancelable period plus certain periods subject to options to extend or terminate the lease. In this scenario, the noncancelable period is 24 months and there are no subsequent periods subject to options to extend or terminate the lease and, therefore, this is a short-term lease. Although historical behaviors and expectations may be relevant factors in

assessing the *likelihood of exercising options* (see par. 20 of SFFAS 54) when determining the lease term, such factors are only applicable to *assessing options*.

9. Paragraph 52A is added to TR 20 (under the topic area for lessee recognition, measurement, and disclosures for leases other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases) as follows:

52A. A reporting entity (lessee) leases a building. The lease term is 10 years. At the commencement of the lease, the reporting entity provides payment for the first three years and recognizes a liability for the present value of the payments for the remaining seven years, which will be paid starting in the fourth year of the lease. Should the reporting entity recognize interest expense during each of the first three years of the lease?

Yes. In accordance with paragraph 43 of SFFAS 54, interest expense represents the amortization of the discount on the lease liability. That discount should be amortized over the entire lease term—including each of the first three years during which the reporting entity is not making payments—using the interest method.

10. Paragraph 75A is added to TR 20 (under the topic area for lease incentives and lease concessions) as follows:

75A. A lease with a lease term of 10 years requires fixed payments of \$17 million to be made for each of the first 9 years. There is a rent holiday (during which the lessee is not required to pay any rent) for year 10. The useful life of the underlying asset is 15 years. How should the reporting entity (lessee) account for the rent holiday?

A rent holiday is a type of lease concession, as described in paragraph 70 of SFFAS 54. In this example, the rent holiday is at the end of the lease term and affects the expected fixed payments to be made during the lease term (see par. 40 and 40.g of SFFAS 54). Therefore, the lease liability would be the present value of \$17 million per year for 9 years, and the discount (the difference between the undiscounted cumulative \$153 million in payments and the present value) would be amortized over 9 years. At the end of year 9, the lease liability would be zero. The *lease asset*, however, would be amortized in a systematic and rational manner over the entire 10-year lease term, in accordance with paragraph 50 of SFFAS 54 (as the lease term is shorter than the useful life of the underlying asset).

CLARIFYING AMENDMENTS AND TECHNICAL CORRECTIONS TO TR 20

11. Paragraph 25 of TR 20 is amended as follows:

25. A lease contract allows only the lessee (reporting entity) to unilaterally terminate the lease at any time but also provides for cancellation penalties. The cancellation penalties are so great that it is probable the lessee will not terminate the lease. Should the cancelable periods covered by the lessee's option to terminate be included in the lease term by the lessee?

Yes, these ~~cancelable~~ periods should be included in the lease term in this particular case. Paragraph 15.b of SFFAS 54 requires lessees to include periods in the lease term covered by their options to terminate if it is probable, based on all relevant factors, that they will not exercise those options. In determining whether it is probable that it will not exercise the option to terminate the lease, the lessee should assess all factors relevant to the likelihood that it will not exercise the option. Those factors include significant economic disincentives, such as cancellation penalties, as discussed in paragraph 20 (see also: TR par. 26-27).

12. Paragraph 91 of TR 20 is rescinded and replaced as follows:

91. **Reporting entity Agency ABC enters into a lease agreement on behalf of the U.S. government for the right to use a residential property on international soil. The economic benefits and services of the underlying assets are expected to be derived by Agency XYZ. How should such a lease be reported, either by Agency ABC or Agency XYZ?**

It depends on whether Agency ABC is acting in the capacity of an agent or a principal.

If Agency ABC is acting in an agent capacity (i.e., similar to a broker), Agency ABC is providing a service to Agency XYZ. Under this agreement, Agency ABC does not provide rent consideration to the lessor or receive rent consideration from Agency XYZ. Therefore, Agency ABC would not account for the lease. Rather, the lease payments are made to the non-federal lessor directly from Agency XYZ's budgetary resources. Accordingly, if Agency ABC is acting in an agent capacity, Agency XYZ would account for the lease (as lessee) and record any lease liability with the non-federal lessor, along with the corresponding lease asset, unless Agency XYZ's lease term is 24 months or less.

If Agency ABC is acting in a principal capacity, Agency ABC is generally responsible for an original lease with the non-federal lessor and a sublease with Agency XYZ. In such circumstances, Agency ABC would provide rent consideration to the original lessor and receive rent consideration from Agency XYZ relating to a sublease agreement. Accordingly, if Agency ABC is acting in a principal capacity, Agency ABC would record any lease liability with the non-federal lessor (unless ABC's lease term is 24 months or less), and account for an intragovernmental sublease with Agency XYZ in accordance with paragraphs 87-88 of SFFAS 54.

EFFECTIVE DATE

13. This Technical Release is effective for reporting periods beginning after September 30, 2023.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Committee members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this Technical Release—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Technical Release may be affected by later Statements or pronouncements. The FASAB Handbook is updated annually and includes a status section directing the reader to any pronouncement that affects this Technical Release. Within the text of the Technical Releases, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of amending Statements or other pronouncements for the rationale for each amendment.

PROJECT HISTORY

- A1. Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, was issued in April 2018. SFFAS 54, as amended, is effective for reporting periods beginning after September 30, 2023.
- A2. Federal Financial Accounting Technical Release (TR) 20, *Implementation Guidance for Leases*, was issued in November 2021. Questions and answers in the TR are intended to provide guidance for applying the accounting and financial reporting requirements for leases in accordance with SFFAS 54.
- A3. After the issuance of TR 20:
- a. Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*, which addresses accounting issues related to intragovernmental reimbursable agreements that were not directly covered under SFFAS 54, was issued in March 2023.
 - b. SFFAS 61, *Omnibus Amendments 2023*, which provided targeted technical clarifications to further facilitate implementation, was issued in April 2023.
 - c. TR 21, *Omnibus Technical Release Amendments 2022*, which made a technical correction to paragraph 17 of SFFAS 54, was issued in September 2022.
- A4. These pronouncements resulted in the need for the Accounting and Auditing Policy Committee (AAPC) to implement a few minor conforming amendments to TR 20 (specifically, par. 59 and 78). These amendments do not substantively change the original TR 20 guidance. The paragraph 59 amendment provides helpful reference to Technical Bulletin 2023-1 for users of the guidance, while the paragraph 78 amendment aligns terminology and citations with corresponding SFFAS 61 amendments to SFFAS 54 guidance.
- A5. As was done when developing TR 20, the AAPC and technical staff continued to coordinate with Governmental Accounting Standards Advisory Board (GASB) technical staff on leases-

related implementation guidance. When developing updates to TR 20, the Committee also considered leases implementation guidance issued by the GASB since the issuance of *GASB Implementation Guide 2019-3, Leases*, including:

- a. *GASB Implementation Guide 2020-1, Implementation Guidance Update—2020*;
- b. *GASB Implementation Guide 2021-1, Implementation Guidance Update—2021*; and
- c. *GASB Implementation Guide 2023-1, Implementation Guidance Update—2023*.

A6. FASAB project staff analyzed TR 20, SFFAS 61, Technical Bulletin 2023-1, practitioner requests and technical inquiries, and the aforementioned GASB implementation guidance updates to identify candidates for conforming amendments and additional questions and answers.² Staff performed a content analysis in collaboration with independent coders from the leases task force to reach agreement on candidates. The Committee reviewed the results of the content analysis and generally agreed with the results, which are reflected in the proposed candidates.

A7. Based on consultations with practitioners, technical inquiries, and feedback from AAPC members, staff identified implementation guidance candidates related to the definition of a lease and the control criterion under paragraphs 2-3 of SFFAS 54 (see proposal to add paragraphs 8A-8B to SFFAS 54 under paragraph 6). In developing this guidance, staff analyzed Financial Accounting Standards Board (FASB) implementation guidance related to fiber optic cable utility contracts and dark fiber leases. Staff implemented analogous guidance. While similar to the FASB guidance, staff aligned the proposals with SFFAS 54 and addressed certain technical differences.³

A8. Although SFFAS 54 and GASB 87, *Leases*, are similar in many ways, certain aspects of the implementation guidance differ from analogous GASB implementation guidance due to technical differences between the standards. Examples include:

- a. Differences in the definition of a lease (see par. 6, which adds par. 8A-8B and 11A to TR 20).
- b. Differences in the definition of a short-term lease (see par. 7, which adds par. 24A to TR 20).

A9. The AAPC also agreed to revise paragraph 91 of TR 20 after receiving additional information regarding international residential leases. Specifically, the AAPC learned that the Department of State oftentimes acts in the capacity of an agent with international residential leases. Specifically, the Department provides leasing services to other federal reporting entity customers, with rental consideration for these leases paid directly to the lessor by the reporting entity customer that leases the residential unit. Upon further consideration of this additional information, the AAPC agreed that paragraph 91 guidance should be modified.

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³Ibid.

SUMMARY OF OUTREACH AND RESPONSES

- A10. The AAPC released an exposure draft (ED) proposal on May 30, 2023, for public comment, with comments requested by June 30, 2023. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.
- A11. Nineteen comment letters were received in response to the ED. Respondents were generally supportive of the proposed updates to TR 20. In response to the comment letters, several questions and answers were improved or clarified, including paragraph 8A, 52A, and 91 amendments to TR 20. Paragraphs 32A and 75A of TR 20 were also further revised based on feedback from respondents to enhance their consistency with SFFAS 54.
- A12. The AAPC also considered comments provided on proposals to further explain what types of expenses are included in "annual lease expense" disclosures required by paragraphs 37.b and 54.e of SFFAS 54. The AAPC discussed respondent feedback on the ED proposal to further amend paragraph 17 of TR 20, which provides guidance on this topic. Some respondents requested additional guidance on how to account for certain types of expenses mentioned under paragraph 27 of SFFAS 54, some of which are related to nonlease components of the contract or agreement under paragraph 73 of SFFAS 54. The AAPC agreed to continue to monitor implementation issues in this area and provide additional guidance or updates to paragraph 17 of TR 20 at a later time if necessary. FASAB staff will refer the topic to the Board for further consideration and potential action.

AAPC AND BOARD APPROVAL

- A13. The TR was approved by the AAPC for release to FASAB for issuance. The Board reviewed this TR and a majority of its members do not object to its issuance. Written ballots are available for public inspection at the FASAB office.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
ED	Exposure Draft
FAF	Financial Accounting Foundation
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GASB	Governmental Accounting Standards Board
SFFAS	Statement of Federal Financial Accounting Standards
TR	Federal Financial Accounting Technical Release

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