



Federal Accounting Standards Advisory Board

February 3, 2017

Memorandum

To: Members of the Board

Monica R. Valentine

From: Monica R. Valentine, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subject: **Summaries of Comment Letters – Leases.¹ – Tab C-1**

MEMBER ACTION REQUESTED:

- Review responses in TAB C-1 to the exposure draft, *Leases* and prepare to make decisions on issues raised in TAB C-2.

MEETING OBJECTIVE

One of the objectives for this meeting is to review the comment letters received on the Leases exposure draft.

Staff requests that the Board respond to the following questions:

- a. Should a public hearing be scheduled?
- b. If not, are there individual respondents from whom you wish staff to seek clarification directly?

BRIEFING MATERIAL

The staff summary consists of a brief background, summary of outreach efforts and an Executive Summary followed by tables identifying respondents by type and affiliation and analyses of their responses by question.

Comment letters are provided as **Attachment 1** which includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

The 90+-day comment period ended on January 6nd and as of January 18 we have received 25 responses.

Attachment 2 of the briefing materials includes the original Exposure Draft.

Staff has summarized responses to each of the questions. Please note that to facilitate analysis staff's summary takes excerpts from respondent replies. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters.

Staff also notes preparing the Tally of Responses and Quick Tables of Responses by Question was not as straight forward or as the Board might be accustomed to seeing because of the following reasons:

- Some respondents chose to address only portions of the ED²
- Some respondents provided a narrative response to the question, without actually indicating agreement or disagreement
- Some respondents indicated agreement with the proposal but provided either a caveat or additional information for consideration (that may have been indicated as a reason for disagreement by another respondent)

As such, perceived correlations between questions should be carefully analyzed and considered in connection to the individual respondent's views.

Staff will also provide **TAB C-2** next week. **TAB C-2** will include **Attachment 3**, which will provide a high level summary of the responses, a list of issues for Board consideration, staff analysis of the issues, and staff recommendations for the Board.

Thank you and I look forward to our meeting.

² Please note that Staff's accompanying analysis relies on the explicit (Yeas or Nays) responses in the tally reports. For example, where only 20 of 25 responded to a question, Staff would report that "half of the respondents agreed" if 10 agreed.

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Attachment 1 provides the full text of each of the comment letters in the order the responses were received and processed.

Attachment 2 provides the original Exposure Draft.

BACKGROUND

The exposure draft proposes revisions to the existing federal lease accounting standards. The proposal would provide relevant and meaningful financial information needed by federal financial statement users. The revised standard would include a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports, as well as appropriate disclosures.

Federal lessees would recognize a lease liability and a leased asset at the beginning of the lease, unless it is an intragovernmental lease or a short-term lease. A federal lessor would recognize a lease receivable and deferred revenue, unless it is an intragovernmental lease or a short-term lease. The proposal also provides recognition, measurement, and disclosure requirements for intragovernmental leases.

SUMMARY OF OUTREACH EFFORTS

The ED was issued September 26, 2016 with comments requested by January 6, 2017. Upon release of the exposure draft, notices and press releases went to the following organizations:

- a) The Federal Register
- b) *FASAB News*
- c) *The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive and the CPA Letter*
- d) The CFO Council, the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the Financial Statement Audit Network; and members of the Central Reporting Team
- e) Committees of professional associations generally commenting on exposure drafts in the past

This broad announcement was followed by electronic mailings of the exposure draft to:

Relevant congressional committees

- a. House Committee on Oversight and Government Reform
- b. House Committee on Transportation
- c. House Committee on Budget
- d. Senate Committee on Homeland Security and Governmental Affairs
- e. Senate Committee on Budget
- f. Senate Committee on Environment and Public Works

Several reminder notices were provided during the comment period.

RESULT

We received a total of 25 responses all of which are include at Attachment 1. Table 1.0 summarizes all received responses below.

Table 1.0 - Summary of Respondent Types to Exposure Draft

RESPONDENT TYPE	FEDERAL (Internal)	NON-FEDERAL (External)	TOTAL
Preparers and financial managers	14	0	14
Users, academics, others	4	3	6
Auditors	3	1	3
Total	21	4	25

Table 1.1 - Summary of Respondent Agencies

RESPONDENT AGENCIES	FEDERAL (# Respondent Letters)
Agriculture	1
Commerce	1
BBG	2
Defense	2
DHS	1
Energy	1
GSA	1
HHS	1
HUD	1
Interior	1
Justice	1
Labor	2
NASA	1
NRC	1
SEC	1
SSA	1
Treasury	1
USPS	1
Total	21

Table 2.0 – Tally of Responses by Question

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Question Number	QUESTION	YES / AGREE	NO / DISAGREE or N/A	RATIONALE FOR “NO/DISAGREE”
1.	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.	17	8	<ul style="list-style-type: none"> ■ The definition is a bit broad and generic, and needs to be enhanced. ■ The FASB definition update (A contract, or part of a contract, that conveys the right to control the use of identified PPE for a period of time in exchange for consideration) is easier understood. ■ We disagree with the use of “nonfinancial asset” in the definition of a lease. “Monetary assets” and “nonmonetary assets” are more appropriate terms and that the Board should use these terms (and the meaning for these terms) consistently throughout the accounting standards and the FASAB Handbook. ■ The definition is too broad and all-encompassing. The definition of a lease should specifically exclude agreements such as those excluded from ASC 842 which specifically excludes leases of intangible assets; leases to explore for or use minerals, oil, natural gas, and similar nonregenerative resources; leases of biological assets, including timber; leases of inventory; and assets under construction.

Table 2.0 – Tally of Responses by Question

Question Number	QUESTION	YES / AGREE	NO / DISAGREE or N/A	RATIONALE FOR “NO/DISAGREE”
2.	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.	15	10	<ul style="list-style-type: none"> ■ The lease term should <u>not</u> include option periods. For option periods, a proposed lease liability does not appear to meet the definition and characteristics of a liability. An option to renew a lease is not a binding agreement is completely under the control of the reporting entity and so does not create a liability, as defined in SFFAC 5. ■ The private sector standards upon which the proposed standards are based were intended to prevent known abuses in the private sector, such as leases that were deliberately structured in order to qualify for a desired accounting treatment. These abuses did not occur in the federal government, in part because the reasons for the abuses relate to conditions that do not exist in the federal government. ■ The likelihood of exercising option periods is uncertain and subjective. Over long periods of time, such as lease option periods, lease terms are often highly unpredictable, because they are subject to major changes in financial priorities and mission goals that can occur when federal administrations change.

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2.				<ul style="list-style-type: none"> ■ Disagree with the definition. Disagree with the use of the phrase “noncancelable right” as it seems to imply that the lease term is the period during which the lessee’s right to use the underlying asset cannot be canceled by the lessor. Suggest rephrasing to something such as “the period during which either the lessor or lessee cannot terminate the contract or agreement without penalty”. ■ I disagree with the definition. When a lease is negotiated, the lease is identified by a term with a firm term. The firm term is the timeframe that the Lessor amortizes the tenant improvements over in order to get his investment back. If the tenant cancels the lease during this firm term period, then the tenant will owe the unamortized tenant improvements to the Lessor in a lump sum payment. The term after the firm term and before the expiration date of the lease is still part of the lease term and is not considered option years. ■ 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

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2.				<p>alternative terminology of “reasonably certain,” with its higher likelihood of outcome. 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.</p> <p>■ 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</p>

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2.				<p>probable.</p> <ul style="list-style-type: none"> ■ We believe that for the lessee, fiscal funding clauses should be considered in determining the noncancelable period, without regard to probability of exercising the fiscal funding clause. Specifically, not considering a fiscal funding/cancellation clause (unless it's probable of being exercised) as a reason to exclude future periods from the noncancelable period will: <ul style="list-style-type: none"> 1- Result in reflecting liabilities on the balance sheet that are analogous to liabilities that are contingent on future events rather than liabilities reflecting events that have already occurred. 2- Include liabilities on the balance sheet which are not liabilities based on current laws or regulations, which is contrary to most, if not all, other liabilities recorded on the balance sheet. 3- Cause the accounting for leases to be inconsistent with the accounting for other types of liabilities, such as entitlement programs, as they are reflective of the current

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2.				<p>legal obligations of the federal government and would only be changed based on changes in law.</p> <p>4- Result in unfunded lease liabilities recorded in the balance sheet and no corresponding obligation in the Statement of Budgetary Resources (SBR), creating a difference between the obligation in the SBR and the liability on the balance sheet.</p> <p>5- Impose undue hardship on agency financial statement prepares to analyze, prepare, record, and retain information for numerous lease transactions that otherwise would not be needed.</p>
3.	<p>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.</p>	18	7	<ul style="list-style-type: none"> ■ I disagree with the proposal that leases with non-federal entities should be recognized as capital leases because I do not believe that this treatment provides more meaningful and relevant data for federal financial statement users, i.e., the general public. ■ A summary of the agency's future lease payments is prepared and provided in the notes to the financial statements. The effort and cost to provide the existing summary info is far less than it would be compared to running our lease transactions through the

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3.				<p>accounting and inventory systems in an effort to report these non-federal leases as capital leases.</p> <ul style="list-style-type: none"> ■ Most if not all leases have a short period (2 to 4 months) where the lessee can terminate the lease. I believe the best presentation remains as an ongoing operating cost and not a capital cost. To have an asset and liability based on 10 to 20 years' worth of rent payments is not an accurate presentation at lease inception because the lessee can terminate the lease within the first year. ■ Disagree with the proposed lessee recognition of a liability and asset at the beginning of a lease term. Federal accounting standards do not always need to mimic private sector standards as government missions are often distinctly different than a private company's mission and the information stakeholders might need or want differs as well. ■ In the case of the Federal government, a change in administration or an abrupt end to a specific project may result in the cancellation of a lease with no future obligation. ■ Requiring the recording of liabilities and assets for leases adds a burden to

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3.				<p>agencies where the benefit does not outweigh the cost.</p> <ul style="list-style-type: none"> ■ The government does not always have the benefits of an asset and often has limited control over the use of the asset being leased. ■ Lessees typically do not have many of the rights in using the leased asset as they would as the owner. Often the owner/lessor retains the right to require lessees to obtain their approval to make changes to the leased asset that the lessee desires in order to have the asset in a condition suitable for the lessee’s use. ■ The government has no title to or control of these assets under contracts that would potentially be considered leases.
4.	<p>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.</p>	18	7	<ul style="list-style-type: none"> ■ Valuing the lease liability at the Net Present Value (NPV) of the cash flows for the duration of the lease term potentially overstates the debt for an agreement that can be terminated when the shorter noncancelable period has expired. This requirement is also inconsistent with valuing the asset at the lesser of fair market value (FMV) or NPV. ■ Disagree with the proposed lessee measurement and recognition of the lease liability. Requiring the

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4.				<p>measurement of lease liabilities at the present value of payments could place an enormous burden on agencies to individually track each and every lease and adjust them every month for GTAS reporting. The current requirement of an annual footnote disclosure within agencies' annual financial reports seems adequate for Federal government reporting purposes.</p> <p>■ 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.</p>
5.	<p>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</p>	14	11	<p>■ The lessor's interest rate often is not identified in the lease and cannot be readily determined. Because the alternative is to use the lessee's interest rate, which will always be considerably lower, there would be a huge variation in the interest rates used for this calculation. Accordingly, there are two reasonable options for uniform and comparable reporting: (a) the Treasury rate for bonds of a similar period, or (b) some other readily</p>

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5.	<p>the rationale for your answers.</p> <p>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.</p>	18	7	<p>determinable rate, such as the published market rate for AAA bonds of similar length.</p> <ul style="list-style-type: none"> ■ For Government leases, this <i>[the interest rate implicit in the leases]</i> is harder to determine. A Leasing Contracting Officer must get the interest rate the Lessor. This can prove to be difficult. In addition, that rate does not necessarily provide an accurate account for the escalation of the rents on the lease. In most cases, the operating expenses are the only portions of the rent that are escalated and they are escalated per the CPI Index rates. So, these rates could be significantly different depending on the time. ■ We strongly disagree that the rate that the lessor charges the lessee, which may be the interest rate implicit in the lease, should be used to measure the future lease payments. Obtaining this rate from the lessor, or reasonably estimating this rate, assumed to be an implicit rate for purposes of the Department’s response as the primary requirement (if able to be met) we believe is a significant requirement change

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5.				<ul style="list-style-type: none"> ■ 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. ■ 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

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5.				<p>the FMV component of implicit rate calculations.</p> <ul style="list-style-type: none"> ■ The “interest rate implicit in the lease” is not defined in the ED. Appendix B of OMB Circular A-11 requires the use of the treasury borrowing rate to calculate the present value of the minimum lease payments and using an interest rate implicit in the lease would depart from this requirement. ■ The rate used to discount future lease payments should be the lessee’s incremental borrowing rate, not the lessor’s rate implicit in the lease. The incremental borrowing rate is more appropriate because it is less subjective and would lessen the burden of determining future lease payments by the lessee, and at the same time be reflective of the rate the lessee would have incurred to borrow, over a similar term, the funds necessary to purchase the leased asset.
6.	a. Do you agree or disagree with the circumstances when the lessee must	15	10	<ul style="list-style-type: none"> ■ We do not agree with the circumstances that dictate when the lessee must remeasure the lease liability. We not anticipate the events outlined in paragraph 25 would materially affect the

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6.	<p>remeasure the lease liability as presented in paragraph 25? Please provide the rationale for your answer.</p> <p>b. Would the requirements triggering remeasurement cause undue costs? Please provide the rationale for your answer.</p> <p>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</p>	<p>13</p> <p>15</p>	<p>12</p> <p>10</p>	<p>aggregate lease liability and remeasurement would present a significant undue cost based on the volume of leases.</p> <ul style="list-style-type: none"> ■ Generally the re-measurement of an intangible property asset is achieved through: (1) systemic amortization based on the expected / estimated life of the asset; and (2) adjustments for changes to the residual value, changes to the annual rental cost, etc. The amortization and adjustment amounts provide an audit trail from the historical cost to the current valuation (net book value). I am not convinced that the re-pricing of the liability should drive the asset balance. ■ Remeasurement should only be required when clearly unavoidable, such as lease termination or major modification. Regarding the requirement in paragraph 25e, the lessor's interest rate should not be used in discounting to present value, because the lessor's interest rate is often unknown; as a result, the resulting calculations would be inconsistent among different leases even within the same

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6.	A19? Please provide the rationale for your answer.			<p>federal agency.</p> <ul style="list-style-type: none"> ■ 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. ■ 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

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6.				<p>such instances occur in their footnote section of the annual report that discloses such unique accounting methodologies for recording asset values?</p> <ul style="list-style-type: none"> ■ Federal government entities would have to change existing processes, and design and implement systems and controls to account for these changes. Current systems are not configured to handle the complexities of accounting for lease remeasurements.
7.	<p>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.</p>	17	8	<ul style="list-style-type: none"> ■ If the Board is going to require a liability be recorded for leases, then I believe the asset should be recorded in the amount of the liability only. To require agencies to record other costs as an asset and then amortize the amounts creates a burden where to costs do not outweigh the benefits. ■ Initial direct costs that are ancillary charges necessary to place the lease asset into service (i.e., commissions and/or payments made to an existing tenant to incentivize that tenant to terminate its lease) should be excluded from the determination of the lease asset as those costs are expected to be minimal (as they are with most commercial leases) and to include these costs as part of

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7.				the lease asset would cause undue costs of identifying, assessing, and accounting for these costs that would outweigh the benefit of presenting these costs as an asset.
8.	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.	18	7	
9.	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.	17	8	<ul style="list-style-type: none"> ■ A short-term lease should be defined as a lease with a non-cancelable period of five years or longer. Reason: the implementation of the lease asset/lease liability requirements will be considerably labor-intensive, and should not be required for relatively short-term leases. ■ We believe the definition of a Short-Term lease is inconsistent with the definition of lease term. The probability of exercising option periods is not

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9.				<p>considered while the term of the lease is affected by the preparer’s determination of the probability that one or more option periods will be exercised. A 12 month lease with two one year option periods would not be a short term lease, regardless of the probability of the options being exercised. However, paragraph 14 would permit preparers to treat that same lease as a short term lease if the preparer did not believe that it was probable that the second option period would be exercised. We believe the current wording may cause differing interpretations by preparers and auditors.</p> <ul style="list-style-type: none"> ■ We believe a short-term lease should have a maximum term of 12 months. Establishing a 12-month maximum term would bring uniformity with the Financial Accounting Standards Board’s (FASB) proposed accounting standards update for leases. For those agencies using the FASB’s accounting standards, a maximum term other than 12 months would require substantial additional work. ■ 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

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9.				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.
10.	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.	19	6	<ul style="list-style-type: none"> ■ The preparation of these disclosures would require systems and processes to track and account for these leases, which would contradict the purpose of the intragovernmental “exception” to recording lease assets and liabilities, and add complexity and cost.
11.	Do you agree or disagree with the proposed prospective	17	8	<ul style="list-style-type: none"> ■ Not sure why intragovernmental lease is treated differently. ■ We believe it would not be

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11.	implementation approach as presented in paragraphs 99 - 100? Please provide the rationale for your answer.			<p>cost effective to recognize and measure all existing leases with remaining lease terms greater than 24 month at the time this proposed standard is implemented. We believe only leases with significant remaining probable lease terms and lease liabilities be recognized and measured. We believe the Board should consider a more limited scope for existing leases such as those with remaining lease terms of at least ten years and a remaining lease liability of \$500,000 or more.</p> <ul style="list-style-type: none"> ■ The proposed standard should apply only to leases entered into after the effective date of the proposed standard. The federal government entities will need time to develop processes, and implement systems and controls to be able to apply the proposed standard.
12.	Do you agree or disagree with the proposed effective date as presented in paragraph 101? Please provide the rationale for your answer.	12	13	<ul style="list-style-type: none"> ■ The proposed implementation date for the Board’s new lease standard is for reporting periods beginning after September 30, 2018, or FY 2019. If the Board were to delay implementation to FY 2020, implementation would be easier by allowing agencies

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12.				<p>to develop processes to convert from the FASB standard to the Board's. Therefore, we believe an FY 2020 effective date is more feasible.</p> <ul style="list-style-type: none"> ■ Less than 2 years may not be enough time to evaluate all leases including the existing leases that are unexpired to be included in the evaluation. ■ The proposed effective date should accommodate the need for additional systems and staffing needed by large-volume non-intragovernmental lessee agencies such as GSA to implement the new requirements. ■ With various proposed exposure drafts and new standards issued we highly encourage FASAB to review the timing of all the new standards and if needed to extend the implementation date of this proposed standard. ■ 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

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12.				<p>will be required to handle the large volume of ongoing lease activity and changes that will now require accounting recognition.</p> <ul style="list-style-type: none"> ■ 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. ■ We propose that the effective date be approximately four years after the issuance date of the proposed standard. This amount of time is needed for federal government entities to develop processes, and design controls and develop systems in order to account for these lease transactions.

Table 3.0 – Quick Table of Responses by Question: Questions 1 – 5b.

Table 3.0 – Quick Table of Responses by Question: Questions 1 – 5b.

Respondent ▼ (see Table 6.0)	1 Do you Agree? (Lease definition)	2 Do you Agree? (Determining the lease term)	3 Do you Agree? (Lessee recognition of lease liability and PP&E)	4 Do you Agree? (Lessee measurement and recognition of lease liability)	5a Do you Agree? (The lessor interest rate/implicit interest rate be used to measure future lease payments)	5b Do you Agree? (Lessee's use of their incremental borrowing rate)
1 – HUD OCFO Policy	N/A	N/A	N/A	N/A	N/A	N/A
2 – HHS OCFO	Yes	Yes	Yes	Yes	Yes	Yes
3 – SSA OCFO	Yes	Yes	Yes	Yes	Yes	Yes
4 – DHS OCFO	Yes	Yes	Yes	Yes	Yes	Yes
5 – USDA NRCS	No	N/A	No	No	N/A	Yes
6 – USPS OIG	N/A	No	N/A	N/A	N/A	N/A
7 – DOD OIG	N/A	N/A	N/A	N/A	N/A	N/A
8– NRC OCFO	Yes	Yes	Yes	Yes	Yes	N/A
9 – DOD OCFO	No	No	No	Yes	No	Yes

Table 3.0 – Quick Table of Responses by Question: Questions 1 – 5b.

Respondent ▼ (see Table 6.0)	1 Do you Agree? (Lease definition)	2 Do you Agree? (Determining the lease term)	3 Do you Agree? (Lessee recognition of lease liability and PP&E)	4 Do you Agree? (Lessee measurement and recognition of lease liability)	5a Do you Agree? (The lessor interest rate/implicit interest rate be used to measure future lease payments)	5b Do you Agree? (Lessee's use of their incremental borrowing rate)
10 – DOE OCFO	Yes	Yes	Yes	Yes	Yes	Yes
11 – BBG OCFO	Yes	Yes	Yes	Yes	Yes	Yes
12 – DOL OIG	Yes	Yes	Yes	Yes	Yes	No
13 – TREASURY	Yes	Yes	Yes	Yes	Yes	Yes
14 – BBG OCFO	No	Yes	Yes	Yes	Yes	Yes
15 – DOL OCFO	No	No	No	No	N/A	N/A
16 - ALN	Yes	Yes	Yes	Yes	Yes	Yes
17 – DOJ	Yes	Yes	Yes	Yes	Yes	Yes
18 – SEC	Yes	No	Yes	No	No	Yes
19 – DOI OCFO	Yes	Yes	Yes	Yes	Yes	Yes
20 – NASA OCFO	Yes	No	Yes	Yes	No	Yes

Table 3.0 – Quick Table of Responses by Question: Questions 1 – 5b.

Respondent ▼ (see Table 6.0)	1 Do you Agree? (Lease definition)		2 Do you Agree? (Determining the lease term)		3 Do you Agree? (Lessee recognition of lease liability and PP&E)		4 Do you Agree? (Lessee measurement and recognition of lease liability)		5a Do you Agree? (The lessor interest rate/implicit interest rate be used to measure future lease payments)		5b Do you Agree? (Lessee's use of their incremental borrowing rate)	
21 - GWSWCPA	Yes		Yes		Yes		Yes		Yes		Yes	
22 – GSA OCFO	Yes		No		Yes		Yes		No		Yes	
23 – DOC OCFO	Yes		Yes		Yes		Yes		No		Yes	
24 - KPMG	N/A		N/A		N/A		N/A		N/A		N/A	
25 - AGA	Yes		Yes		Yes		Yes		Yes		Yes	
Totals	17 4	4	15 4	6	18 4	3	18 4	3	14 6	5	18 6	1
KEY	YES N/A	NO	YES N/A	NO	YES N/A	NO	YES N/A	NO	YES N/A	NO	YES N/A	NO

Table 4.0 – Quick Table of Responses by Question: Questions 6 – 7

Table 4.0 – Quick Table of Responses by Question: Questions 6 – 7

Respondent ▼ (see Table 6.0)	6a Do you Agree? (Circumstances when the lessee remeasures the lease liability)	6b Do you believe....? (The requirements triggering remeasurement causes undue costs)	6c Do you Agree? (The effect of the remeasurement on the carrying value of the lease asset)	7 Do you Agree? (Lessee measurement and recognition of lease asset)
1 – HUD OCFO Policy	N/A	N/A	N/A	N/A
2 – HHS OCFO	Yes	Yes	Yes	Yes
3 – SSA OCFO	Yes	No	Yes	Yes
4 – DHS OCFO	No	Yes	Yes	Yes
5 – USDA NRCS	Yes	Yes	No	No
6 – USPS OIG	N/A	N/A	N/A	N/A
7 – DOD OIG	N/A	N/A	N/A	N/A
8 – NRC OCFO	No	Yes	N/A	Yes

Table 4.0 – Quick Table of Responses by Question: Questions 6 – 7

Respondent ▼ (see Table 6.0)	6a Do you Agree? (Circumstances when the lessee remeasures the lease liability)	6b Do you believe....? (The requirements triggering remeasurement causes undue costs)	6c Do you Agree? (The effect of the remeasurement on the carrying value of the lease asset)	7 Do you Agree? (Lessee measurement and recognition of lease asset)
9 – DOD OCFO	No	Yes	No	No
10 – DOE OCFO	Yes	Yes	No	Yes
11 – BBG OCFO	Yes	No	Yes	Yes
12 – DOL OIG	Yes	No	Yes	Yes
13 – TREASURY	Yes	No	Yes	Yes
14 – BBG OCFO	Yes	Yes	Yes	Yes
15 – DOL OCFO	No	N/A	No	No
16 - ALN	Yes	Yes	Yes	Yes
17 – DOJ	Yes	No	Yes	Yes
18 – SEC	No	Yes	Yes	No
19 – DOI OCFO	Yes	No	Yes	Yes

Table 4.0 – Quick Table of Responses by Question: Questions 6 – 7

Respondent ▼ (see Table 6.0)	6a Do you Agree? (Circumstances when the lessee remeasures the lease liability)		6b Do you believe....? (The requirements triggering remeasurement causes undue costs)		6c Do you Agree? (The effect of the remeasurement on the carrying value of the lease asset)		7 Do you Agree? (Lessee measurement and recognition of lease asset)	
20 – NASA OCFO	Yes		N/A		Yes		Yes	
21 – GWSCPA	Yes		Yes		Yes		Yes	
22 – GSA OCFO	No		Yes		No		Yes	
23 – DOC OCFO	Yes		Yes		Yes		Yes	
24 - KPMG	N/A		N/A		N/A		N/A	
25 - AGA	Yes		Yes		Yes		Yes	
Totals	15 4	6	13 6	6	15 5	5	17 4	4
KEY	YES N/A	NO	YES N/A	NO	YES N/A	NO	YES N/A	NO

Table 5.0 – Quick Table of Responses by Question: Questions 8 – 12

Table 5.0 – Quick Table of Responses by Question: Questions 8 – 12

Respondent ▼ (see Table 6.0)	8 Do you Agree? (Lessor measurement and recognition of lease receivable and deferred revenue)	9 Do you Agree? (Definition, measurement, and recognition of short-term leases)	10 Do you Agree? (Definition, measurement, recognition, and disclosure of intragovernmental leases)	11 Do you Agree? (Prospective implementation)	12 Do you Agree? (Effective date)	Comments or Suggestions
1 – HUD OCFO Policy	N/A	N/A	N/A	N/A	N/A	N/A
2 – HHS OCFO	Yes	Yes	Yes	Yes	No	Yes
3 – SSA OCFO	Yes	Yes	Yes	Yes	Yes	Yes
4 – DHS OCFO	Yes	Yes	Yes	Yes	Yes	Yes
5 – USDA NRCS	No	Yes	Yes	N/A	N/A	Yes
6 – USPS OIG	N/A	N/A	N/A	N/A	No	Yes
7 – DOD OIG	N/A	N/A	N/A	N/A	N/A	N/A
8– NRC OCFO	Yes	Yes	Yes	Yes	Yes	Yes
9 – DOD OCFO	N/A	Yes	Yes	No	No	Yes

Table 5.0 – Quick Table of Responses by Question: Questions 8 – 12

Respondent ▼ (see Table 6.0)	8 Do you Agree? (Lessor measurement and recognition of lease receivable and deferred revenue)	9 Do you Agree? (Definition, measurement, and recognition of short-term leases)	10 Do you Agree? (Definition, measurement, recognition, and disclosure of intragovernmental leases)	11 Do you Agree? (Prospective implementation)	12 Do you Agree? (Effective date)	Comments or Suggestions
10 – DOE OCFO	Yes	Yes	Yes	Yes	Yes	Yes
11 – BBG OCFO	Yes	Yes	No	Yes	No	N/A
12 – DOL OIG	Yes	Yes	Yes	Yes	Yes	Yes
13 – TREASURY	Yes	Yes	Yes	Yes	Yes	Yes
14 – BBG OCFO	Yes	Yes	Yes	Yes	No	Yes
15 – DOL OCFO	N/A	No	No	Yes	No	Yes
16 – ALN	Yes	Yes	Yes	Yes	Yes	Yes
17 – DOJ	Yes	Yes	Yes	Yes	Yes	Yes
18 – SEC	Yes	No	Yes	Yes	No	Yes
19 – DOI OCFO	Yes	Yes	Yes	Yes	Yes	Yes

Table 5.0 – Quick Table of Responses by Question: Questions 8 – 12

Respondent ▼ (see Table 6.0)	8 Do you Agree? (Lessor measurement and recognition of lease receivable and deferred revenue)		9 Do you Agree? (Definition, measurement, and recognition of short-term leases)		10 Do you Agree? (Definition, measurement, recognition, and disclosure of intragovernmental leases)		11 Do you Agree? (Prospective implementation)		12 Do you Agree? (Effective date)		Comments or Suggestions	
20 – NASA OCFO	Yes		No		Yes		No		Yes		Yes	
21 - GWSCPA	Yes		Yes		Yes		Yes		Yes		Yes	
22 – GSA OCFO	Yes		No		Yes		No		No		Yes	
23 – DOC OCFO	Yes		Yes		Yes		Yes		Yes		Yes	
24 - KPMG	N/A		N/A		N/A		N/A		N/A		Yes	
25 - AGA	Yes		Yes		Yes		Yes		No		Yes	
Totals	18 6	1	17 4	4	19 4	2	17 5	3	12 4	9	22	3
KEY	YES N/A	NO	YES N/A	NO	YES N/A	NO	YES N/A	NO	YES N/A	NO	YES	N/A

Table 6.0 – Summary of Responses by Question ⁵

Table 6.0 – Summary of Responses by Question ³

<p>QUESTION - 1</p> <p>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.</p>	
2. HHS OCFO	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.
3. SSA OCFO	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.
4. DHS OCFO	DHS agrees with the proposed definition of a lease. It covers all the required elements of a lease.
5. USDA NRCS	I believe that the definition is a bit broad and generic, and needs to be enhanced. In our organization we have various groups and staffs that participate in the leasing activities; leasing and contracting officers, property staff and the accounting team, and we all have to be on the same page. Possibly providing examples of the types of contracts and agreements in the appendix would be helpful. I thought that the issuance of Technical Release 16: Implementation Guidance for Internal Use Software, was nicely done, and provided us with information and examples that we could share with our Information Technology (IT) staff to get them on point so we could better communicate. I think we need to do something similar to Technical Release 16: Implementation Guidance for Internal Use Software, in terms of spelling out we are interested in, with this lease pronouncement.
9. DOD OCFO	DoD does not agree with the proposed definition. The definition is too broad and all-encompassing. The DoD believes that the definition of a lease should specifically exclude agreements such as those excluded from the recently issued FASB ASU on Leases (Topic

³ The staff's summary takes excerpts from each respondents' reply intended to support your consideration of the comments and not to substitute for a complete reading of the individual letters.

Table 6.0 – Summary of Responses by Question ⁵

	<p>842). ASC 842, specifically excludes leases of intangible assets; leases to explore for or use minerals, oil, natural gas, and similar nonregenerative resources; leases of biological assets, including timber; leases of inventory; and assets under construction. In addition the DoD proposes to exclude other intangible assets such as (but not limited to) land rights and rights of way, various types of easements (e.g., utility easements), air rights, mineral rights, and infeasible rights of use. ASC 842 defines leases more specifically and states [in part], “A contract...that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration”. Because of the breadth and complexity of the DoD, the DoD enters into many different types of complex agreements that, under the proposed FASAB standard, would be difficult to categorize as a lease instead of a service arrangement. Therefore, the DoD suggests that the Board provide specific guidance in distinguishing service arrangements from leases, and suggests that the Board expand the guidance currently in paragraph A11 of the ED, and specifically define Service Concession Arrangements (SCAs) as service agreements.</p> <p>In addition, the DoD believes that FASAB should consider narrowing the definition to specifically state that a lease (1) conveys the “right to control” and (2) that a lease covers “identified property, plant, or equipment (an identified asset)”. The DoD believes that the Exposure Draft should address the concept of “control” as discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 5, <i>Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements</i>, and the current language referring to “right to use” is too broad a term and may result in inconsistent and incorrect application of the definition of a lease. For example, service agreements may convey a right to use an asset when control is effectively retained by the supplier. Similarly, the DoD believes that the term “nonfinancial asset” is too broadly defined in footnote 16 of paragraph A11, and should not include internal use software, intangible assets, and the types of assets excluded by ASC 842.</p> <p>The DoD suggests that the Board consider including a flowchart depicting a prescribed decision process to follow in identifying whether a contract is a lease or a service arrangement, and conform the ED to the concepts in the flowchart in ASC 842-10-55-1, including (but not limited to) the concept of substantive substitution rights of the supplier. The DoD enters into many contracts that involve use of assets of a supplier that may not qualify as leases when considering the guidance in ASC 842.</p>
11. BBG OCFO	<p>Agree - but I would add a short description of distinction between capital & operating lease in the definition.</p>

Table 6.0 – Summary of Responses by Question ⁵

12. DOL OIG	We agree with the definition of a lease and the Board's inclusion of both contract and agreement in the definition. Additionally, we believe that the definition should incorporate the concept that a lease conveys the right to control the use of the non-financial asset, consistent with FASB standards.
13. TREASURY	The Department of the Treasury agrees with the proposed definition of lease presented in paragraph 9 and further explained in paragraph 15. It provides enough information to capture the various types of lease activities. Also, the definition appears to be consistent with that in the "Capital and Operating Leases, A Research Report" published in 2003 and on the FASAB site. In addition, there should be further clarification or examples as to what is included or excluded from the definition of a lease. This definition appears to cover "Share-in Savings Contracts" or "Energy Savings Performance Contracts" (ESPC's), for definitions see attached. The Department has these contracts, and has been specifically told that for GTAS reporting ESPC's are not to be recognized as lease liabilities (capital lease liabilities), that they are considered "Other Liabilities Without Related Budgetary Obligations" (SGL 299000). Under these proposed guidelines, the Department will encounter a difference in reporting for GTAS versus for the audited financial statements.
14. BBG (MIXSON)	Disagree- The FASB definition update (A contract, or part of a contract, that conveys the right to control the use of identified PPE for a period of time in exchange for consideration) is easier understood.
15. DOL OCFO	<p>(1) DOL/OCFO/DFR disagrees with the use of "nonfinancial asset" in the definition of a lease. "Monetary assets" and "nonmonetary assets" are more appropriate terms and that the Board should use these terms (and the meaning for these terms) consistently throughout the accounting standards and the FASAB Handbook. The examples of assets as described in footnote 3 on Page 11 are examples of nonmonetary assets that exclude certain items, e.g., operating materials and supplies.</p> <p>(2) For an intragovernmental lease, please specify if the "agreement" in the definition of lease includes a memorandum of understanding.</p> <p>(3) Intragovernmental leases should exclude contracts/agreements for which the receiving entity would record an imputed financing source/imputed cost because the receiving entity does not fully reimburse the performing entity.</p>
16. ASSET LEADERSHIP NETWORK	Generally agree with the approach, but a lease should also include an "arrangement" along with a "contract" and an "agreement", this is important to retain the concept of recognizing "financial substance over legal form". Some arrangements maybe not be in the form of a contract or a written agreement but should be considered a lease. Including arrangements to

Table 6.0 – Summary of Responses by Question ⁵

	the definition should help capture significant off book transactions and make them more transparent.
17. DOJ JMD	Agree. The previous standard only addressed the definition of a capital lease and did not provide sufficient guidance. The revised definition aligns FASAB guidance with FASB's February 25, 2016 Accounting Standards Update (ASU) which was intended to improve financial reporting about leasing transactions as well as providing standards for intragovernmental leasing. Overall, the improved lease accounting requirements will provide greater transparency in federal financial reporting.
18. SEC	Agree. The proposed definition is concise and reasonable.
19. DOI	Agree. The definition is concise enough to capture federal leasing activities and yet not too restrictive. It is left open enough to provide flexibility. Suggest clarifying where easements and land rights, licenses, concession agreements, etc. fall under this definition.
21. GWSCPA	The FISC agrees with the proposed definition of leases presented in the ED. We suggest that the Board consider adding an example of what is meant by "intangible assets," which is one of the 'non-financial asset' examples in footnote 3 on page 11 of the ED.
22. GSA	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.
23 DOC	The Department agrees with the proposed definition of a lease. The definition appears to be broad enough to address the various lease options into which the Federal government enters.
24. KPMG	Footnote 3 states "Examples of nonfinancial assets include land, buildings, vehicles, equipment, internal use software. . ." We recommend that the Board specifically state in the scope section that the standard applies to leases of internal use software as defined in SFFAS 10, <i>Accounting for Internal Use Software</i> .

Table 6.0 – Summary of Responses by Question ⁵

QUESTION - 2	
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.	
2. HHS OCFO	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.
3. SSA OCFO	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.
4. DHS OCFO	DHS agrees with the proposed guidance on determining the lease term. It provides specific provisions for determining the lease term.
5. USDA NRCS	<p>I understand the rationale for the proposed guidance for determining the lease term. I like the use of "probable", per paragraph A18, when evaluating the lease renewal options that are five or ten years out. It is a challenge for the Real Property Leasing Officer (RPLO), Contracting Officer and/or the accountant to readily determine whether an individual lease will be renewed because the actual tenant/user (State / Program representative) needs to provide input as to whether the property meets his/her needs when determining whether to renew or terminate the lease when approaching the effective renewal date.</p> <p>During my 5+ years of working with real property leases, our agency has opted to renew a higher percentage of leases than it terminates. So the rule of thumb, and the more conservative approach, has been to include the option renewal period(s) as stated in the lease agreement when performing our lease determination analysis (operating or capital lease).</p>
6. USPS OIG	We understand the logic supporting the Board's proposal defining a short-term lease as a maximum term of 24 months. However, we believe a short-term lease should have a maximum

Table 6.0 – Summary of Responses by Question ⁵

	<p>term of 12 months.</p> <p>Establishing a 12-month maximum term would bring uniformity with the Financial Accounting Standards Board's (FASB) proposed accounting standards update for leases. For those agencies using the FASB's accounting standards, a maximum term other than 12 months would require substantial additional work.</p> <p>In addition, a 12-month period is used throughout the FASB's Accounting Standards, including the definitions of current assets and current liabilities, and in numerous other instances. We believe accounting standards issued by the Board should be consistent with those issued by the FASB, whenever possible.</p>
9. DOD OCFO	<p>The DoD does not agree with the proposed guidance. The DoD believes that for the lessee, fiscal funding clauses should be considered in determining the noncancelable period, without regard to probability of exercising the fiscal funding clause. Specifically, not considering a fiscal funding/cancellation clause (unless it's probable of being exercised) as a reason to exclude future periods from the noncancelable period will:</p> <ol style="list-style-type: none"> 1) Result in reflecting liabilities on the balance sheet that are analogous to liabilities that are contingent on future events rather than liabilities reflecting events that have already occurred. 2) Include liabilities on the balance sheet which are not liabilities based on current laws or regulations, which is contrary to most, if not all, other liabilities recorded on the balance sheet. The DoD, like many federal government agencies, is subject to mandates from Congress such as sequestration, and the annual budget process, which can affect DoD's ability to satisfy obligations such as lease liabilities. 3) Cause the accounting for leases to be inconsistent with the accounting for other types of liabilities, such as entitlement programs, as they are reflective of the current legal obligations of the federal government and would only be changed based on changes in law. Recording a liability for a non-finance or non-sales type lease is recording a liability for a future event that may not occur (e.g., the occupancy of a building or office space in the future). This is inconsistent with the definition of a liability as discussed in paragraphs 42 and 46 of SFFAC 5. 4) Include as liabilities amounts which are not real liabilities since the federal government can contractually reduce them to zero through a non-appropriation.

Table 6.0 – Summary of Responses by Question ⁵

	<p>5) Result in unfunded lease liabilities recorded in the balance sheet and no corresponding obligation in the Statement of Budgetary Resources (SBR), creating a difference between the obligation in the SBR and the liability on the balance sheet.</p> <p>6) Impose undue hardship on agency financial statement preparers to analyze, prepare, record, and retain information for numerous lease transactions that otherwise would not be needed.</p> <p>7) Be inconsistent with Office of Management and Budget (OMB) budget requirements, which state in OMB A-11:</p> <p>“For operating leases, budget authority is required to be obligated up front in the amount necessary to cover the Government's legal obligations, consistent with the requirements of the Antideficiency Act.”“For operating leases, budget authority will be scored against the legislation in the year in which the budget authority is first made available in the amount necessary to cover the Government's legal obligations.”</p>
11. BBG OCFO	Agree - I would add additional clause on determining probability of exercising renewal option to be little more clear.
12. DOL OCFO	<p>(1) If one of the purposes of the standard is to report the Federal entity's liabilities on the balance sheet for transactions that are off-balance sheet under current GAAP, then the definition of noncancelable period should also include language about the minimum period for which the Federal lessee has an obligation to make lease payments.</p> <p>(2) In paragraph 17.a, use “lease incentive” instead of “economic incentive” for consistency in the document.</p> <p>(3) In paragraph 17.d, can the federal entity be a lessor? If not, language should be clear that it is for federal lessee.</p> <p>(4) In paragraph 18, if a federal lessor has the option to terminate the lease (e.g., paragraph 15.c) then the need to reassess the lease term should not be limited to the actions of the lessee (e.g., in the current reporting period, the lessor may inform the lessee that it will terminate the lease in a future reporting period).</p>

Table 6.0 – Summary of Responses by Question ⁵

<p>17. DOJ JMD</p>	<p>Agree. However, incremental funding under a single and/or multiple continuing resolutions could be problematic. Paragraph 16.c. attempts to address this by stating that “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 <i>probable</i> <i>[italics and emphasis added]</i> that the clause will be exercised. The standard is silent on how to determine what is “probable.” FASB Statement of Financial Accounting Standards No. 5 defines “probable” as “the future event or events are likely to occur”. The Board attempts to clarify if A18 explaining that FASB’s probability threshold is “reasonably certain” and that FASB’s probable definition equates to “more likely than not (>50% probability), however it can be difficult to determine when a lapse in appropriation is “reasonably certain” or “more likely to occur” and federal managers typically do not know until the last moment.</p> <p>Also, If the lease has a cancelation clause, but it is probable that the option years will be extended by the lessee as mentioned in Paragraph 14, should this be considered in effect a non-cancelable lease?</p>
<p>18. SEC</p>	<p>The lease term should <u>not</u> include option periods, for the following reasons:</p> <p>a. For option periods, a proposed lease liability does not appear to meet the definition and characteristics of a liability. SFFAC 5 defines a liability as “A liability is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand,”⁴ and states that, “A present obligation is incurred when the government takes a specific action or an event occurs that commits or binds the government.”⁵ Even a contingent liability depends upon events that are not under the control of the reporting entity. An option to renew a lease is not a binding agreement is completely under the control of the reporting entity and so does not create a liability, as defined in SFFAC 5.</p> <p>b. The private sector standards upon which the proposed standards are based were intended to prevent known abuses in the private sector, such as leases that were deliberately structured in order to qualify for a desired accounting treatment. These abuses did not occur in the federal government, in part because the reasons for the abuses relate to conditions that do</p>

⁴ SFFAC 5, par. 39

⁵ SFFAC 5, par. 42 (bold added)

Table 6.0 – Summary of Responses by Question ⁵

	<p>not exist in the federal government. The federal government does not pay taxes or persuade stockholders to buy stock. It has an ability to impose mandatory taxes as its primary source of revenue. For this reason, the federal government should have a compelling reason to parallel private sector accounting principles. However, the ED has provided no compelling reason why proprietary accounting should depart from budgetary obligations regarding the length of the lease term. In addition, longer lease terms that include option years greatly increase the level of uncertainty in estimating the lease asset and liability and make it more likely that the estimated asset and liability will be misstated.</p> <p>c. The likelihood of exercising option periods is uncertain and subjective. Over long periods of time, such as lease option periods, lease terms are often highly unpredictable, because they are subject to major changes in financial priorities and mission goals that can occur when federal administrations change. For example, downsizing, upsizing, or changes in geographical location may occur, and often have occurred, as directed by Congress and the President, to reflect changing priorities as expressed by the voting public. Predicting whether an agency will exercise option periods for long-term leases implies a degree of certainty greater than actually exists, which may be misleading for readers of the financial statements.</p> <p>d. The subjective nature of guessing whether option periods will be exercised is likely to create disagreements between agencies and their auditors, which would require the use of personnel resources for accountants and auditors to resolve, with no clear value added. This is important regarding the increasing emphasis on the federal government “doing more with less” and/or reducing the size, scope, and cost of the federal government.</p>
19. DOI	<p>Agree, it makes sense that we should account for the lease for the amount of time the lessee has a right to use the asset. Disagree with the use of the phrase “noncancelable right” as it seems to imply that the lease term is the period during which the lessee’s right to use the underlying asset cannot be canceled by the lessor. Suggest rephrasing to something such as “the period during which either the lessor or lessee cannot terminate the contract or agreement without penalty”. Also suggest rephrasing “option period” to “option renewal period” to be clear.</p>
20. NASA	<p>We recommend additional language to clarify the definition of the term “noncancelable” not just the length of the noncancelable period. We also recommend including in the additional clarifying language a requirement to define/outline where/how specific lease term provisions related to the funding/cancellation clauses and other additional provisions will be operational within the lease.</p>

Table 6.0 – Summary of Responses by Question ⁵

<p>22. GSA</p>	<p>GSA 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.</p> <p>How would the Board consider an extension? Paragraphs 14-16 are difficult to understand the Board's intent. Please elaborate on paragraph 16.c. GSA does not typically use such clause in real estate leases and would not find this relevant.</p> <p>GSA View 2: There is 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. The term "noncancellable" and its normal language usage implies that the lessee/lessor cannot reasonably exit the lease without significant penalty.</p>
<p>23. DOC</p>	<p>The Department agrees with the proposed guidance on determining the lease term. The Department recommends that FASAB consider the below situation (if not already considered by FASAB) for inclusion as an additional situation that causes a remeasurement of the lease term, "An assessment of all relevant factors indicates that the likelihood of an option being exercised has changed from probable to not probable, or vice versa."</p>
<p>24. KPMG</p>	<p>Paragraphs 14 through 18 in the standards for non-intragovernmental leases provide the basis for determining the lease term. Because lease term is a fundamental concept which we believe is equally relevant to intragovernmental leases, we recommend that these paragraphs be moved to a general section outside of the non-intragovernmental and intragovernmental leases sections. Because the determination of the lease term is critical to consistent adoption of the standard, we believe paragraphs 14 through 18 warrant a flowchart.</p>
<p>25. AGA</p>	<p>We agree that it's a reasonable approach since FASAB has frequently used the term "probable," and is employing its own definition of "probable". However, it should be noted as a result of this definition a state or local government, private or not-for-profit entity will have accounting information that is asymmetrical to the FASAB's definition of "probable". (We</p>

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	understand the GASB may conclude on a “reasonably certain” threshold).
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QUESTION - 3	
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.	
2. HHS OCFO	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.
3. SSA OCFO	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.
4. DHS OCFO	<p>DHS generally agrees with the proposed lease recognition of a lease at the beginning of the lease term as presented in paragraph 19, but recommends FASAB consider re-wording paragraph 20 to reduce confusion. We believe the government would still be recording a liability when:</p> <p><i>“20. A lease contract/agreement that transfers ownership of the underlying asset to the lessee at or before the end of the lease, and does not contain termination options (see par. 14 - 15), should be reported as a purchase of that asset.”</i></p> <p>However, we believe FASAB is intending to say this would not be a “lease liability?” Perhaps FASAB would consider changing this to reduce confusion?</p>
5. USDA NRCS	<p>I disagree with the proposal that leases with non-federal entities should be recognized as capital leases because I do not believe that this treatment provides more meaningful and relevant data for federal financial statement users, i.e., the general public.</p> <p>A summary of the agency’s future lease payments is prepared and provided in the notes to the financial statements. The effort and cost to provide the existing summary info is far less than it would be compared to running our lease transactions through the accounting and inventory systems in an effort to report these non-federal leases as capital leases.</p> <p>Secondly, our agency has approximately 600 leases for office space with non-federal entities, and I am fairly certain that our agency and our parent agency do not have statutory or budget authority to freely purchase any of these buildings. Attempting to treat the lease transactions as a financing for a potential purchase, and to account for</p>

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	<p>the payments (NPV) as “government assets” instead of as operating expenses does not make the financial presentation “more meaningful” for the general public. Per paragraph A26, the goal should be to take a ‘simplified approach for leases which would be pragmatic and cost efficient’.</p> <p>Thirdly, most if not all leases have a short period (2 to 4 months) where the lessee can terminate the lease. I believe the best presentation remains as an ongoing operating cost and not a capital cost. To have an asset and liability based on 10 to 20 years worth of rent payments is not an accurate presentation at lease inception because the lessee can terminate the lease within the first year.</p> <p>I feel that the current disclosures in the notes to the financial statements for leases (future payments) provide a good overview for the readers of the financial statements, without having to run the lease-level asset and liability transactions through the general ledger.</p>
9. DOD OCFO	<p>Please see the response to Q2 above.</p> <p>In addition, the DoD agrees that intragovernmental and short-term leases should be exempted from the requirement to recognize a lease liability and a right-to-use lease asset. However, the DoD does not agree with the proposed recognition at the beginning of the lease term (for leases other than intragovernmental and short-term) for the following reasons.</p> <ol style="list-style-type: none"> 1) The government does not always have the benefits of an asset and often has limited control over the use of the asset being leased. 2) Lessees typically do not have many of the rights in using the leased asset as they would as the owner. Often the owner/lessor retains the right to require lessees to obtain their approval to make changes to the leased asset that the lessee desires in order to have the asset in a condition suitable for the lessee’s use. <p>The government has no title to or control of these assets under contracts that would potentially be considered leases. The government obtains the right to use an asset owned by others, but has no right to pledge, assign, or encumber these assets; or claims to these assets, and therefore recording a right to use asset in the government’s financial statements does not seem to be appropriate accounting. Additionally, because the lessor (as owner) would record the asset on its balance sheet, the lessee’s recording</p>

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	of a right to use asset would result in double counting of the asset.
10. DOE OCFO	The Department agrees with the proposed guidance for lease recognition. The guidance complements OMB Circular A-11 Appendix B scoring rules on leases. We would just request that any new standard be implemented in conjunction with the roll out of new SGL accounts and guidance on the transaction/posting models.
16. ASSET LEADERSHIP NETWORK	Agree -- for units that meet the entity's capitalization threshold. No -- for contracts, agreements or arrangements for units under the capitalization threshold. The importance and primary benefit of changing the standard is to promote transparency and good decision making. Too many times a lease-purchase analysis will show items should be purchased rather than leased but because of budgetary constraints are more on capital funds than expense funds, items are leased rather than purchased. If entities have relatively high thresholds for the capitalization of PP&E, most equipment items will not be above the capitalization threshold – so it will be business as usual, prompting continued waste.
18. SEC	Agree, provided that there are exceptions for both intragovernmental leases and short-term leases, with the definition of short-term leases broadened to include five years at the beginning of a new lease or remaining on existing leases at the initial implementation date.
22. GSA	We agree with the asset and liability accounts per this paragraph. 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.
23. DOC	The Department agrees with the proposed lessee recognition of a lease at the beginning of the lease term, because the Department believes that the recognition of events as events occur is consistent with accrual accounting for proprietary transactions.
24. KPMG	Paragraph 17 states: "At the beginning of a lease..." and paragraph 19 states "At the beginning of the lease term..." It is unclear what difference, if any, exists between the two phrases. Also, it is unclear when the Board intends for lease accounting to begin. The beginning of a lease could be the date upon which a lessee signs a lease, begins

Table 6.0 – Summary of Responses by Question ⁵

	occupancy or takes delivery of the underlying asset, or another date. We recommend that the Board use consistent wording between paragraphs 17 and 19 and provide guidance on when a lease begins.
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QUESTION - 4	
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.	
2. HHS OCFO	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.
3. SSA OCFO	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 SFFAC 5. The present value of the future lease payments covered under the lease term appropriately reflects the liability under the lease agreement.
4. DHS OCFO	DHS agrees that a lessee should measure the lease liability initially at the present value of payments to be made for the lease term. The ED provides comprehensive guidance on lessee measurement and recognition of the lease liability.
5. USDA NRCS	<p>Valuing the lease liability at the Net Present Value (NPV) of the cash flows for the duration of the lease term potentially overstates the debt for an agreement that can be terminated when the shorter noncancelable period has expired. This requirement is also inconsistent with valuing the asset at the lesser of fair market value (FMV) or NPV.</p> <p>Another unaddressed question is whether the agency will need to establish an obligation (budgetary resources) to cover the lease liability at lease inception. Some or most agencies will need to have access to additional “no year funding” as the duration of the funding is supposed to match or exceed the lease period.</p>
9. DOD OCFO	The DoD agrees with the requirement in principle, if in fact there was a liability to be recognized. However, the DoD does not agree with the proposed requirement to measure and recognize a lease liability when there is the presence of a fiscal funding clause as discussed in Q2 above.
10. DOE OCFO	The Department partially agrees with the proposed lessee measurement and recognition of lease liability presented paragraphs 21 - 29. We think an additional "required" lease payment type should be added in addition to the outlined criteria listed under paragraph 21 a-g as follows:

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	<p>“Payments required to be made by the lessee under non-routine or unique circumstances (such as triple net leasing arrangements).”</p>
12. DOL OIG	<p>We agree with the proposed lease measurement and recognition of the lease liability, except that penalties noted in paragraph 21f should only be included in the measurement if termination is probable (see “probable” language in paragraph 21d and 21e that is excluded from 21f). We agree that the lessee taking possession of the underlying asset or gaining access to use the underlying asset is an event that creates an obligation until the end of the lease term. We suggest for the Board’s consideration that “significantly” in paragraphs 25-27 be changed to “materially” to avoid ambiguity as the related term “materiality” is defined in paragraph 4.</p>
15. DOL OCFO	<p>DOL/OCFO/DFR Response: In paragraph 25, it is possible that a combination of these changes could have offsetting effects and the net effect may not significantly affect the amount of the lease liability. It is possible that the effects of paragraphs 25 through 29 are offsetting and the net effect does not significantly affect the amount of the lease liability. There should be an accounting standard as to whether remeasurement would be required in these cases.</p>
18. SEC	<p>Disagree. Paragraph 21g is too broad a category for inclusion in the calculation of the lease liability. The requirements for calculating the liability should have explicit exclusions for payments for routine operating costs, such as utilities and maintenance, even in cases where the payments will be made to the lessor. When, for example, a lessee may be required to make utility payments to the lessor instead of to a utility company, this does not change the substance of the transaction; it is an operating expense that should be charged to the reporting period, and not be included in the lease asset/lease obligation calculation. The explicit exclusions would also serve to make reporting more uniform within each agency and throughout the federal government, because there is likely little or no consistency in how these operating expenses are paid by lessees.</p>
19. DOI	<p>I agree with the majority of the paragraphs. I have concern about 21d and 21f. 21d is very vague. Measurement of lease liability includes “Amounts that are probable of being required to be paid by the lessee under residual value guarantees”. In my mind, tax adjustments would be included in this purview. Tax adjustments are probable of being required, however, it is unknown what those adjustments would be until the Lessor provided the tax receipts from the previous year. So, how could those be included in a liability determination? As for 21f, measurement of lease liability includes payments for penalties for lease termination. If a lessee terminates the lease early (during the firm term of the lease), the Leasing Contracting Officer and the Lessor negotiate the terms of that penalty. It starts with the unamortized portion of the tenant improvements that have left to be paid and can be negotiated from there. If the Landlord has a tenant looking to move into that space</p>

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	right away, he may waive a good portion of that penalty to get the lessee out sooner. What I'm pointing out is that this amount is not firm and is negotiable, so how do you determine the amount to apply to the lease liability? The current requirement of an annual footnote disclosure within agencies' annual financial reports seems adequate for Federal government reporting purposes.
22. GSA	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. Please clarify the term lease incentives used in 21 a. Is this term not relevant to lessees with non-intragovernmental leases? If yes, then please provide further detailed guidance. 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.
23. DOC	The Department agrees with the proposed lessee measurement and recognition of the lease liability. The Department recommends that the proposed standard specifically address the exclusion from the lease liability of the portion of the present value of the rental and other minimum lease payments during the lease term that represents executory costs to be paid by the lessor. Paragraph 44 of SFFAS 5 specifically addresses such executory costs, and the Department recommends continuing to specifically address the treatment of such executory costs in this proposed standard.
24. KPMG	Paragraph 21g states "Any other payments that are probable of being required based on an assessment of all relevant factors." It is unclear what these other payments would be. We recommend that the Board include examples of these payments.
25. AGA	We agree that present value is the best approach determining the value of the asset and liability. It is a systematic and rational way to determine the value of a series of payments over a long-term, resulting in the retirement of a liability at an incremental borrowing rate.

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QUESTION – 5	
<p>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.</p> <p>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.</p>	
2. HHS OCFO	<p>a. HHS agrees. This treatment agrees with the current treatment of capital leases.</p> <p>b. HHS agrees. This agrees with the current treatment of capital leases.</p>
3. SSA OCFO	<p>a. Agree. Using the lessor’s interest rate to discount future lease payments will most accurately reflect the value of the leased asset.</p> <p>b. Agree. When the lessor’s interest rate is unavailable, using the lessee’s borrowing rate is a reasonable and objective alternative.</p>
4. DHS OCFO	<p>a. DHS agrees 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. In most instances, the rate should be able to be inferred from the terms of the lease.</p> <p>b. DHS agrees 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. This measurement considers the most relevant interest rate when the agreement rate cannot be reasonably estimated.</p>
5. USDA NRCS	I agree that either the implied rate or the published Treasury rate should be used.

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<p>9. DOD OCFO</p>	<p>a. The DoD does not agree. The “interest rate implicit in the lease” is not defined in the ED. ASC 842 defines the interest rate implicit in the lease as “The rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred initial direct costs of the lessor”. If there was a requirement to apply the definition in ASC 842, it would cause significant judgment on the part of lessees that may lead to assumptions that are not accurate. In addition, Appendix B of OMB Circular A-11 requires the use of the treasury borrowing rate to calculate the present value of the minimum lease payments and using an interest rate implicit in the lease would depart from this requirement.</p> <p>b. The DoD agrees that the rate used to discount future lease payments should be the lessee’s incremental borrowing rate, not the lessor’s rate implicit in the lease. The DoD believes that the incremental borrowing rate is more appropriate because it is less subjective and would lessen the burden of determining future lease payments by the lessee, and at the same time be reflective of the rate the lessee would have incurred to borrow, over a similar term, the funds necessary to purchase the leased asset. A Treasury bill rate using a term commensurate with the term of the lease would result in a more objective measure of the future lease payments and result in consistency in application between federal government agencies. This would also be consistent with the concepts embodied in OMB Circular A-11.</p>
<p>10. DOE OCFO</p>	<p>b. The Department agrees with the proposed guidance for discounting lease payments and the lessee’s use of its incremental borrowing rates when the lessor’s borrowing rate cannot be readily estimated. However, we would like for FASAB to consider providing guidance on situations in which the lessor’s incremental borrowing rate cannot be reasonably estimated, and the lessee’s borrowing rate on the lease is less than Treasury’s borrowing rate for securities of similar maturity to the term of the lease.</p>
<p>13. TREASURY</p>	<p>a. The Department of the Treasury agrees with the rate the lessor would charge as discussed in paragraph 23. This approach appears to be reasonable and consistent with current practices. The Board may consider including the following in footnote 9 “...Treasury borrowing rate for securities of similar maturity (see <i>OMB Circular A-94 Appendix C</i>).”</p>

Table 6.0 – Summary of Responses by Question ⁵

17. DOJ JMD	<p>a. Agree. Determining the appropriate discount rate to use when measuring lease assets and liabilities is to find the rate that best reflects the interest rate embedded within the contract (that is, the rate the lessor charges the lessee). The lessee should discount lease payments at the rate the lessor charges the lessee (that is, the rate implicit in the lease) when that rate can be readily determined.</p> <p>b. Agree. The lessee's incremental borrowing rate is the best proxy or practical means of trying to reflect the rate the lessor charges the lessee when the implicit rate is not readily determined.</p>
18. SEC	<p>a. Disagree. The lessor's interest rate often is not identified in the lease and cannot be readily determined. Because the alternative is to use the lessee's interest rate, which will always be considerably lower, there would be a huge variation in the interest rates used for this calculation. Accordingly, there are two reasonable options for uniform and comparable reporting: (a) the Treasury rate for bonds of a similar period, or (b) some other readily determinable rate, such as the published market rate for AAA bonds of similar length. The Board should select only one of these options for the sake of uniformity, because option (a) would be a much lower rate than option (b).</p> <p>b. Partially agree.</p>
20. NASA	<p>a. We recommend this be revised to read, "When the interest rate the lessor is charging is documented in the lease agreement that rate will be used as the discount rate. If the interest rate is not stated in the lease agreement, the lessee will use their incremental borrowing rate (i.e. the current Treasury borrowing rate for securities of the same maturity period as the term of the lease.)."</p>
21. GWSCPA	<p>The FISC generally agrees with the provisions of paragraph 23. Some FISC members expressed concerns that the calculation of the lessee's incremental borrowing rate may be complicated and require a considerable amount of time for the preparer community to apply the Treasury yield curve and support these estimates with a tool to model each of the agency's leases. In addition, there is no requirement in paragraph 23 for a preparer to determine the difference between the lessor's rate and the lessee's incremental borrowing rate. In instances in which a difference between the two rates results in a significant difference in the calculation of the future lease payments, it is not clear whether the agency should use the lesser of the two calculations, or if the Board's intention is that the lessor's borrowing rate is the most informative rate.</p>

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22. GSA	<p>a. 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.</p> <p>b. 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.</p>
23. DOC	<p>a. The Department at this time strongly disagrees that the rate that 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. Obtaining this rate from the lessor, or reasonably estimating this rate, assumed to be an implicit rate for purposes of the Department's response as the primary requirement (if able to be met) we believe is a significant requirement change from paragraph 45 of SFFAS 5,</p> <p>b. The Department agrees, as currently proposed, 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.</p>
25. AGA	<p>a. We agree the implicit rate is a cost to the lessee and should be presented accordingly.</p> <p>b. While we agree that the "Treasury borrowing rate for securities of similar maturity to the term of the lease," we are not sure what FASAB was trying to communicate when stating "unless the entity has its own borrowing authority" and would ask FASAB to provide clarification on how that statement would affect the lease process, as it is not discussed in the Basis for Conclusions.</p>

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QUESTION – 6	
<p>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.</p> <p>b. Would the requirements triggering remeasurement cause undue costs? Please provide the rationale for your answer.</p> <p>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.</p>	
2. HHS OCFO	<p>a. HHS generally agrees with the circumstances for remeasuring lease liability. It follows the generally accepted principles of accrual accounting.</p> <p>b. 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.</p> <p>c. 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.</p>
3. SSA OCFO	<p>a. 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.</p> <p>b. 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.</p> <p>c. 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</p>

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	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.
4. DHS OCFO	<p>a. DHS does not agree with the circumstances that dictate when the lessee must remeasure the lease liability. DHS does not anticipate the events outlined in paragraph 25 would materially affect the aggregate lease liability and remeasurement would present a significant undue cost based on the volume of leases across DHS.</p> <p>b. The requirements triggering remeasurement would cause undue costs to most DHS components due to the large volume of leases and resource constraints.</p> <p>c. DHS agrees with the effect of the remeasurement on the carrying value of the lease asset. The asset value should equal the cumulative amount paid excluding finance charges.</p>
5. USDA NRCS	<p>a. The circumstances requiring re-measurement appear reasonable.</p> <p>b. Based on the info provided, I cannot determine whether there would be undue costs for the re-measurement processes. However, I believe that there will be undue costs for the agencies to enhance their accounting systems and lease inventory systems in order to account for all non-federal leases as capital leases, and to add staff to the accounting teams.</p> <p>c. Generally the re-measurement of an intangible property asset is achieved through: (1) systemic amortization based on the expected / estimated life of the asset; and (2) adjustments for changes to the residual value, changes to the annual rental cost, etc. The amortization and adjustment amounts provide an audit trail from the historical cost to the current valuation (net book value). I am not convinced that the re-pricing of the liability should drive the asset balance.</p>
9. DOD OCFO	<p>a. The DoD believes that it would be appropriate to remeasure the lease liability due to the circumstances in paragraph 25, however, the DoD believes that clarity may be needed to define “certain changes”. For practical reasons, it would be necessary to adjust the liability in these circumstances. The remeasurement should take place upon the actual occurrence (versus the likelihood) taking place based on conclusive evidence, since the terms and conditions of the signed lease contract or agreement still exist and the lessee has a non-cancellable right to use the asset.</p>

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	<p>b. The DoD believes that the requirements triggering remeasurement will significantly increase the costs of accounting for a lease. The DoD believes that federal government entities would have to change existing processes, and design and implement systems and controls to account for these changes. Current systems are not configured to handle the complexities of accounting for lease remeasurements.</p> <p>c. The DoD believes that it would be appropriate to remeasure the lease asset as presented in paragraph 33 and further explained in paragraph A19. For practical reasons, it would be necessary to adjust the lease asset in the same manner as the lease liability.</p>
10. DOE OCFO	<p>a. The Department partially agrees with the circumstances provided in which the lessee must re-measure the lease liability. We would like to know how FASAB is interpreting the distinction between “significantly affect” and “material”. The term “significantly affect”, is not defined in the current version of the FASAB Handbook of Federal Accounting Standards (June 2016). Also, we are concerned the term “significantly affect”, as it is discussed at paragraph 25, is subject to misinterpretation or misapplication in context with the re-measurement of lease liabilities.</p> <p>b. The requirements triggering re-measurement would cause undue costs if the change is not "material" to the agency's financial statements. Also, for agencies that have entered into leases with "variable" interest rates, the re-measurement process may be burdensome because of the continuous change in interest rates.</p> <p>c. The Department would like for the Board to consider further explaining its position on the effects of re-measurement on the carrying value of the leased assets, as discussed in paragraph 33. Specifically, the Department would like for FASAB to address under which circumstances a leased asset can have any “carrying value” left over to be reported as a “gain”, if the associated lease liability has been reduced to zero?</p>
11. BBG OCFO	<p>a. Agree - changes in the circumstances listed in paragraph 25 would significantly change the present value of lease and the lease liability that remeasurement would reflect more accurate balance of the liability/asset.</p> <p>b. It would cost to remeasure but it is necessary to accurately report the asset/liability related to the lease. Small changes in one factor could cause significant change in lease asset/liability.</p>

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	c. Agree - the lease asset value would move with the value of the lease liability.
12. DOL OIG	<p>a. We agree with the circumstances identified in paragraph 25; however, as worded, this list is narrow and does not seem to allow for re-measurement outside of these circumstances. We suggest that the Board consider adding broader situations that would require the lessee to re-measure at subsequent financial reporting dates, such as “Other changes that are expected to significantly affect the amount of the lease liability”. Such a change would allow for flexibility by preparers for items possibly not considered by the Board.</p> <p>c. We agree with the effect of the re-measurement on the carrying value of the lease asset as presented, understanding that this would require a change from recognizing the asset at adjusted historical cost. We agree that should the adjustment reduce the carrying value of the lease asset to zero, then a gain would be appropriate. We suggest that the Board change “flows statement” to “Statement of Net Cost” for clarity in paragraph 33.</p>
13. TREASURY	<p>b. The Department of the Treasury generally does not believe the requirements triggering remeasurement would cause an undue cost. However, agency accountants may have to develop a new process (es) to reevaluate leases during reporting periods while already at capacity compiling required reports and statements. Agencies that have a large number of leases may need to establish a monitoring program and evaluating the probability of exercising option years will also need to be assessed each year.</p> <p>c. The Department of the Treasury agrees with the carrying value of the lease asset as presented in paragraph 33 and further explained in paragraph A19. This appears to be a practical approach and is reasonable that the “right of use” of personal property or lease asset carrying value be impacted when the liability is remeasured. However, there is a question of what would happen in a subsequent period if the remeasurement increases the lease, would you then increase the asset?</p>
14. BBG (MIXSON)	a. Agree/ - But changes in the circumstances listed in paragraph 25 could significantly change the present value of lease and the lease liability. Remeasurement at every financial reporting date that remeasurement would reflect more accurately will be labor intensive.

Table 6.0 – Summary of Responses by Question ⁵

15. DOL OCFO	<p>c. The proposed standard for remeasurement of the carrying value of the lease asset may be the only practical and expedient treatment. The Board should consider whether remeasurement should be made to a valuation allowance that is separate from accumulated amortization.</p> <p>In paragraph 35.b, the Board should consider disclosure of the valuation allowance.</p>
16. ASSET LEADERSHIP NETWORK	<p>b. It could, if the materiality exception is not applied. Internal procedures should strive to balance faithful representation vs. materiality, similar to impairment testing.</p>
17. DOJ JMD	<p>a. Agree. Reassessments should be conducted if there are significant triggering events.</p> <p>b. No. However, the tasks associated with identifying, inputting and continuously monitoring key elements of the underlying calculations would require significant manual effort if the entity maintained a large number of leases and if an automated system solution was not available. In these situations the costs could outweigh any potential benefits especially if the remeasurements were not material.</p>
18. SEC	<p>a. Disagree. Remeasurement should only be required when clearly unavoidable, such as lease termination or major modification. Regarding the requirement in paragraph 25e, as explained in the response to Q5a above, the lessor's interest rate should not be used in discounting to present value, because the lessor's interest rate is often unknown; as a result, the resulting calculations would be inconsistent among different leases even within the same federal agency. The ED does not provide a compelling rationale for why agency resources should be used for remeasurement except when remeasurement is unavoidable.</p> <p>b. Yes, the requirements triggering remeasurement would cause undue costs, especially for high-volume lessees such as GSA. This would be particularly true for requirement 25a if agencies are required to include option years in the lease term. See Q2 for SEC comments on including option years in the lease term. The ED does not provide a compelling rationale for why agency resources should be used for remeasurement except when remeasurement is unavoidable.</p> <p>c. Agree. The recognition of a lease asset and liability should not impact net position. A lease asset should never be valued at less than zero.</p>

Table 6.0 – Summary of Responses by Question ⁵

<p>21. GWSCPA</p>	<p>The FISC generally agrees with the remeasurement considerations in the ED. Some FISC members expressed concerns that the circumstances for remeasurement in paragraphs 25b through 25e are not as objectively determined as the lease reassessment, modification, or termination circumstance in paragraph 25a. Therefore, providing sufficient evidence to the auditors that the less objective circumstances have been considered and concluded on by the preparer at each subsequent financial reporting date may require undue costs by the preparer and auditor communities.</p>
<p>22. GSA</p>	<p>a. 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. 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.</p> <p>b. 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.</p> <p>c. 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?</p>
<p>23. DOC</p>	<p>a. The Department agrees with the circumstances when the lessee must remeasure the lease liability. The Department recommends that a lessee's lease liability should not be remeasured solely because of a change in the lessor's interest rate. This recommendation is consistent with paragraph 28, which provides that a lease liability is not required to be</p>

Table 6.0 – Summary of Responses by Question ⁵

	<p>remeasured solely for a change in the lessee’s incremental borrowing rate.</p> <p>b. The Department believes that the burden associated with remeasurement of a lease liability will vary based on the circumstances surrounding the lease; however, the Department supports the proposed remeasurements treatment.</p> <p>c. The Department agrees with the effect of the remeasurement on the carrying value of the lease asset, because the asset valuation is tied to the liability valuation. Also, if a change would reduce the carrying valuation of the asset below zero, it is appropriate to record a gain as a result of the reduction in valuation below zero.</p>
24. KPMG	<p>a.Paragraph 25 states “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 [emphasis added] the amount of the lease liability.” It is unclear how a lessee would determine whether or not a change is expected to affect, or significantly affect, the lease liability without actually performing the remeasurement. This could result in an assessment or remeasurement every reporting period. We believe the cost would outweigh the expected benefits to financial statement users.</p> <p>The term “significantly” in paragraph 25 is not defined. It is unclear whether the consideration of significance is for an individual year or the cumulative change to the lease liability. This will result in inconsistent application. We recommend that the Board provide clarification.</p>
25. AGA	<p>a. We agree with the re-measurement for the reasons the FASAB states in paragraph 25. However, paragraph A19 does not provide a rationale for re-measuring the asset. There is a basis in FASAB concepts for re-measurement as stated in SFFAC 7 the FASAB identified the “advantages and disadvantages of reporting initial amounts and <i>remeasured amounts</i> and of applying different measurement attributes,” but <i>did not draw any conclusions</i> “as to which measurement approach or attribute” may be preferable either in general or in particular circumstances. Such conclusions are the province of the standard-setting process, in the course of which the concepts in this Statement will be considered on a project-by-project basis, along with cost–benefit considerations and other practical reporting concerns that may arise under different alternatives.” [par. 22, emphasis added]</p> <p>b. While we believe that remeasurement can cause additional costs it is hard to ascertain the magnitude of the costs since each entity’s leases are unique and depend on the type and the number of leases. We highly encourage FASAB to keep the remeasurements</p>

Table 6.0 – Summary of Responses by Question ⁵

	<p>requirements to the minimum, focusing on those items that would have the material effect on the lease amount.</p> <p>c. We agree with the re-measurements on the carrying value but recommend FASAB provide additional explanations in Paragraph A19 regarding what was considered in determining the list in A19.</p>
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Table 6.0 – Summary of Responses by Question ⁵

<p>QUESTION – 7</p> <p>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.</p>	
2. HHS OCFO	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.
3. SSA OCFO	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.
4. DHS OCFO	DHS agrees with the proposed lessee measurement and recognition of the lease asset. The calculation takes all factors into consideration for the recognition of the lease asset similar to the requirements. SFFAS 6 states that capitalized assets should include all costs incurred to bring the asset to a form and location suitable for its intended use. The costs discussed in paragraphs 30-34 are indeed required to bring the asset to a form and location suitable for its intended use.
5. USDA NRCS	<p>I disagree as I see the cost of a lease as a period cost, and not an asset; i.e., pay as you go. Accounting for the leases with non-federal entities as an asset overly complicates a fairly simple transaction. I do not believe this approach is meaningful for anyone other than accountants.</p> <p>The original valuation for capitalized leased property was the lesser of the NPV or FMV. It appears that this concept has been thrown out the window in favor of the calculated lease liability amount.</p>
9. DOD OCFO	Regarding initial direct costs, the DoD believes that initial direct costs that are ancillary charges necessary to place the lease asset into service (i.e., commissions and/or payments made to an existing tenant to incentivize that tenant to terminate its lease) should be excluded from the determination of the lease asset as those costs are expected to be minimal (as they are with most commercial leases) and to include these costs as part of the lease asset would cause undue costs of identifying, assessing, and accounting for these costs that would outweigh the benefit of presenting these costs as an asset. ASC 842-10-30-10 specifically states that costs to negotiate or arrange a lease that would have been incurred regardless of whether the lease was obtained, such as fixed employee salaries, are not initial direct costs. The following items are examples of costs that the DoD believes should be excluded from the measurement of the lease liability that are not considered initial direct costs (as enumerated in ASC 842-10-30-10(a) through 30-10(c):

Table 6.0 – Summary of Responses by Question ⁵

	<ul style="list-style-type: none"> • General overheads, including, for example, depreciation, occupancy and equipment costs, unsuccessful origination efforts, and idle time; • Costs related to activities performed by the lessor for advertising, soliciting potential lessees, servicing existing leases, or other ancillary activities; • Costs related to activities that occur before the lease is obtained, such as costs of obtaining tax or legal advice, negotiating lease terms and conditions, or evaluating a prospective lessee's financial condition. <p>The DoD believes that a simpler and better accounting for these costs would be to include them as period expenses.</p> <p>The DoD further recommends adding illustrative examples of the concepts embodied in paragraphs 33 and 34 of the ED.</p>
18. SEC	Conditionally agree, if SEC recommendations on (a) explicit exclusions (Q4) and interest rate (Q5) in the calculations are incorporated in the revised requirements.
22. GSA	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.
23. DOC	The Department agrees with the proposed lessee measurement and recognition of the lease asset, because the measurement and recognition methods proposed appears to be consistent with existing Property, Plant, and Equipment guidance.
24. KPMG	Paragraph 30c states "Initial direct costs that are ancillary charges necessary to place the lease asset in service." However, paragraph 12 defines initial direct costs as "costs that are directly attributable to negotiating and arranging a lease or portfolio of leases". We recommend that the Board address the discrepancy.
25. AGA	We agree the right to use the asset meets the FASAB asset definition. The obligation to make the lease payments meets the FASAB definition of a liability. We also agree with paragraph A22 that: "PP&E assets generally are measured at historical cost, which is the amount paid for those assets. Therefore, measuring the lease asset based on the lease liability is consistent with historical cost accounting applicable to PP&E."

Table 6.0 – Summary of Responses by Question ⁵

<p>QUESTION – 8</p> <p>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.</p>	
2. HHS OCFO	HHS agrees. The requirements seem to represent the lessor side of the transaction appropriately.
3. SSA OCFO	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.
4. DHS OCFO	DHS agrees with the proposed lessor measurement and recognition of the lease receivable and deferred revenue. The ED provides comprehensive guidance on lease receivable and deferred revenue.
5. USDA NRCS	I disagree based on the similar reasons stated in Q3.
9. DOD OCFO	Other than Enhanced Use Leases (EULs), the DoD is generally not a lessor. EUL is a method for funding construction or renovations on federal property by allowing a private developer to lease underutilized property, subject to several provisions, with rent paid by the developer in the form of cash or in-kind services. Because of the structure of these arrangements, the long terms of EULs, and the complexities related to the compliance with requirements of Section 2667 of Title 10, U.S. Code, EULs are would prove difficult to account for under the proposed standard. Therefore, the DoD recommends adding illustrative examples of the concepts embodied in paragraphs 36 – 48 and revising the ED to address EULs.
12. DOL OIG	<p>We agree with the proposed lessor measurement and recognition of the lease receivable and deferred revenue as it appears to be meet revenue recognition standards, and aligns with measurement and recognition of lease liability to be consistent where applicable. However, we suggest for the Board's consideration that:</p> <p>1) Guidance on the accounting for a financed sale of the nonfinancial asset as mentioned in</p>

Table 6.0 – Summary of Responses by Question ⁵

	<p>paragraph 37 or applicable reference to guidance be provided; and</p> <p>2) “Significantly” in paragraphs 43-44 be changed to “materially” to avoid ambiguity as the related term “materiality” is defined in paragraph 4.</p> <p>It is unclear why the Board has determined that a difference should exist between lessee liability measurement (paragraph 21) and lessor asset (receivable) measurement (paragraph 40) related to the exercise price of a purchase option and penalties for lease termination. As such, we recommend including this determination in its Basis for Conclusions.</p>
18. SEC	Partially agree. Lessor reporting should parallel lessee reporting, including the SEC recommendations in Q1-Q7.
22. GSA	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. In general, we believe it will be difficult for a lessor to judge probability that a lessee will exercise option periods.
23. DOC	The Department agrees with the proposed lessor measurement and recognition of the lease receivable and deferred revenue, primarily because the Department believes that recognition of events as events occur appears to be consistent with accrual accounting for proprietary transactions.

Table 6.0 – Summary of Responses by Question ⁵

<p>QUESTION – 9</p> <p>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.</p>	
2. HHS OCFO	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.
3. SSA OCFO	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 live 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.
4. DHS OCFO	DHS agrees with the proposed definition and measurement and recognition of a short-term lease. The proposed definition and measurement recognition aligns with SFFAS 6 which defines PP&E as a tangible asset with an estimated useful life of 24 months or more.
5. USDA NRCS	Our agency capitalizes assets that meet a certain dollar threshold that have a useful life of 2 or more years. So I am fine with short term defined as 24 months or less.
9. DOD OCFO	The DoD agrees with the definition of 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”. However, the DoD does not agree that options to extend should be included without regard to their probability of being exercised. The DoD believes that options to extend would be excluded until those options are probable of being exercised. The DoD believes that this treatment is appropriate because of the unilateral rights afforded to the government related to termination of contracts.

Table 6.0 – Summary of Responses by Question ⁵

10. DOE OCFO	<p>Generally, the Department agrees with the proposed definition, measurement, and recognition of a short term lease. However, we are concerned there is a possible misinterpretation between paragraphs 14 and 59 on the determination of a lease. We would like for the Board to clarify whether it is the Board's intent for Paragraph 14 to be the final qualifier for defining a lease term.</p> <p>Please consider the following examples:</p> <ol style="list-style-type: none"> 1) The Department enters into a lease contract [as a lessee] that is 16 months with an option period of 9 months. If the Department has the option to cancel the 9 month option period of its lease, then the maximum lease term to be evaluated would be 16 months (the non-cancellable portion of the lease) under paragraphs 14 and 59. 2) The Department enters into a lease contract [as a lessee] for 16 months, with the probable exercise of a 9 month lease option period. Based on the Department's interpretation of paragraph 14, this lease contract will not qualify as a short term lease because the lease term is for 25 months. Therefore, this lease will have to be tracked and recorded as a capital lease.
11. BBG OCFO	Agree - but what about at the time of remeasurement presented in paragraph 25-29?
15. DOL OCFO	In paragraphs 60 and 61, the accounting standard should describe the treatment of cases where the reduction of expense/lease income due to straight-line amortization of the rent holiday results in a negative amount of expense/lease income for the accounting period.
17. DOJ JMD	Agree. FASAB assessed costs and benefits in relation to financial reporting (the cost constraint on useful financial reporting).
18. SEC	Disagree. A short-term lease should be defined as a lease with a non-cancelable period of five years or longer. Reason: the implementation of the lease asset/lease liability requirements will be considerably labor-intensive, and should not be required for relatively short-term leases.
20. NASA	We believe the definition of a Short-Term lease in paragraphs 13 and 59 is inconsistent with the definition of lease term in paragraph 14. In paragraphs 13 and 59 the probability of exercising option periods is not considered while in paragraph 14 the term of the lease is effected by the preparer's determination of the probability that one or more option periods will be exercised. In accordance with paragraphs 13 and 59 a 12 month lease with two one year option periods would not be a short term lease, regardless of the probability of the options being exercised. However, paragraph 14 would permit preparers to treat that same lease as a short term lease if the preparer did not believe that it was probable that the second option period would be exercised. We believe the current wording may

Table 6.0 – Summary of Responses by Question ⁵

	cause differing interpretations by preparers and auditors.
22. GSA	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.
23. DOC	The Department agrees with the proposed definition and measurement and recognition of a short-term lease.
25. AGA	We agree that aligning the lease short-term exception with the PP&E standard (asset – 24 months or more) is logical and practical. The reporting will reduce implementation costs in the first year.

Table 6.0 – Summary of Responses by Question ⁵

QUESTION – 10	
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.	
2. HHS OCFO	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.
3. SSA OCFO	<p>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.</p> <p>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 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.</p> <p>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.</p>
4. DHS OCFO	DHS agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases. The ED provides comprehensive guidance on intragovernmental leases accounting.
5. USDA NRCS	I concur with most of the info for the intragovernmental leases, which is to treat the rents as operating expenses for the current period. The exception is the proposed treatment of lease incentives and concessions as reductions to expense (for lessee) and income (lessor) over the lease term. I am not aware that our agency receives or gives any incentives or concessions, but if so, I believe that they are immaterial to the total dollars spent for rents, and to the financial statements as a whole.

Table 6.0 – Summary of Responses by Question ⁵

9. DOD OCFO	<p>The DoD agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases as presented in paragraphs 75 – 95 and further explained in paragraphs A26 – A29. More specifically, the DoD believes that leases between federal government agencies that consolidate to the overall U.S. Government financial statements, and non-government entities that are required to be consolidated in a federal government agency's financial statements in accordance with SFFAS 47, <i>Reporting Entity</i>, would qualify as intragovernmental.</p> <p>The DoD does not agree with the disclosure requirements for intragovernmental leases embodied in paragraphs 87 and 95 of the ED. The preparation of these disclosures would require systems and processes to track and account for these leases, which would contradict the purpose of the intragovernmental "exception" to recording lease assets and liabilities, and add complexity and cost.</p>
10. DOE OCFO	<p>The Department partially agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases.</p> <p>At Paragraphs 90 and 91, we would like FASAB to clarify why the distinction was made between a "lease incentive" and "lease concession", when both terms as applied to intragovernmental leases, appear to be synonymous?</p> <p>A "lease incentive" and a "lease concession" is a form of payment given by the lessor to entice the lessee to sign the lease. They both result in reduced rental income received by the lessor and paid by the lessee. Even the basis for conclusions at paragraph A29, which states "<i>lease incentives and concessions should be recognized by the lessee/lessor as reductions of lease rental expense/lease rental income</i>", supports the analogous interpretation of these two terms.</p>
11. BBG OCFO	<p>Not sure why intragovernmental lease is treated differently.</p>
12. DOL OIG	<p>We agree with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases, especially within the consolidation entity. With respect to the use of the term "intragovernmental" in OMB Circular No. A-136 where the transaction or event is outside the reporting entity, we suggest using the term "inter-entity" to avoid confusion and better identify the leases falling into this category.</p> <p>We agree that a simplified approach for recognizing intragovernmental leases would be more realistic and cost efficient. We believe the guidance on lease incentives, concessions, and improvements are adequate and consistent between lessor and lessee within a consolidation entity.</p>

Table 6.0 – Summary of Responses by Question ⁵

<p>15. DOL OCFO</p>	<p>(1) For paragraph 75, please refer to the responses in question 1.</p> <p>(2) For paragraph 83, the accounting standard should describe the treatment of cases where the reduction of expense due to straight-line amortization of lease incentives results in a negative amount of expense for the accounting period.</p> <p>(3) For paragraph 85, the accounting standard should describe the treatment of cases where the reduction of expense due to straight-line amortization of lease concessions results in a negative amount of expense for the accounting period.</p> <p>(4) For paragraph 86, a leasehold improvement may exist for a lease asset (e.g., paragraph 17.b); therefore, the definition of leasehold improvement should appear in a section of the standard applicable to both non-intragovernmental leases and intragovernmental leases. For non-intragovernmental leases, if remeasurement changes the carrying value of the lease asset, then the Board should describe the effect on the leasehold improvement. For non-intragovernmental leases, if impairment changes the carrying value of the lease asset, then the Board should describe the effect on leasehold improvement.</p> <p>(5) For paragraph 90, the accounting standard should describe the treatment of cases where the reduction of rental income due to straight-line amortization of lease incentives results in a negative amount of rental income for the accounting period.</p> <p>(6) For paragraph 92, the accounting standard should describe the treatment of cases where the reduction of rental income due to straight-line amortization of lease concessions results in a negative amount of rental income for the accounting period.</p>
<p>18. SEC</p>	<p>Agree. The lease assets, liabilities, revenues, and expenses for intragovernmental leases would be eliminated for the consolidated government-wide financial report. There is no compelling rationale for expending agency resources on increasing agencies' reporting burden with complex reporting requirements for intragovernmental amounts that are eliminated in the consolidation process.</p>
<p>21. GWSCPA</p>	<p>The FISC generally agrees with the intragovernmental lease guidance in the ED. The FISC suggests that the phrase "right to use an asset" in paragraph 75 be replaced with "right to use a non-financial asset" in order to align with the lease definition in paragraph 9. The FISC also suggests that a footnote be added to the phrase "a contract or agreement" in paragraph 75 that informs a reader that "contracts or agreements within or between consolidation entities typically take the form of a Memorandum of Agreement (MOA), Memorandum of Understanding (MOU), and Military Interdepartmental Purchase Request (MIPR)." In addition, the FISC suggests that the</p>

Table 6.0 – Summary of Responses by Question ⁵

	Board consider requiring the number of leases by major leased asset category to paragraph 87.
22. GSA	We agree with the general concepts proposed for intragovernmental leasing, particularly that such leases would predominantly be treated as operating leases. Regarding paragraph 78 we recommend clarity regarding the recognition of expenses being based on “specifics of the lease provisions.” In paragraph 86 we recommend clarity regarding recognition of capitalized leasehold improvements. 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). ssed 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.
23. DOC	The Department agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases as presented in paragraphs 75 - 95 and further explained in paragraphs A26 - A29. The proposed guidance aligns with OMB A-11 for intragovernmental agreements and requires minimal disclosures as compared to non-intragovernmental leases.
24. KPMG	<p>Paragraph 77 states: “A lessee should recognize lease payments...based <i>primarily</i> [emphasis added] on the payment provisions of the lease.” Paragraph 78 states: “Recognition should be based on the payment provisions of the lease.” It is unclear what, if any, differences are intended between the two paragraphs. We recommend that the Board either remove the word “primarily” from paragraph 77 or provide examples of other items to consider in addition to the provisions of the lease.</p> <p>Paragraph 80 uses the phrase “contingent rental increases.” Paragraph 21b uses the phrase “variable lease payments”. It is unclear what, if an, differences are intended between the two phrases. We recommend that the Board either conform the wording or provide clarification.</p> <p>Paragraph 87b states “general lease terms with specific intragovernmental requirements.” We recommend that the Board modify paragraph 87b to provide additional guidance about what is meant by the phrase “specific intragovernmental requirements.”</p>

Table 6.0 – Summary of Responses by Question ⁵

25. AGA	We agree but believe FASAB doesn't provide a strong enough basis for the conclusion other than pragmatism and cost containment. Based on a GSA presentation, "the Board agreed that intragovernmental leases should be accounted for differently than leases between federal entities and non-federal entities. The Board agreed that a simplified approach for recognizing intragovernmental leases would be pragmatic and cost efficient." While we are in favor of cost savings, we believe more rationale is needed.
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Table 6.0 – Summary of Responses by Question ⁵

QUESTION – 11	
Do you agree or disagree with the proposed prospective implementation approach as presented in paragraphs 99 - 100? Please provide the rationale for your answer.	
2. HHS OCFO	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.
3. SSA OCFO	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.
4. DHS OCFO	DHS agrees with the proposed prospective implementation approach. The reporting period at implementation to record any changes in the leases treated prospectively will streamline the process.
5. USDA NRCS	I cannot offer an opinion at this time as I have some unanswered questions; specifically, (1) will the liability for the leases with non-federal entities need to be funded (obligated); (2) do we undo the existing accounting that is currently done for the existing capital leases that have been recorded; and (3) would the unused funds from the existing capital leases be available to use to fund the liability in the new world of lease accounting.
9. DOD OCFO	The DoD disagrees with the proposed guidance. The DoD believes that the proposed standard should apply only to leases entered into after the effective date of the proposed standard. The DoD believes that federal government entities will need time to develop processes, and implement systems and controls to be able to apply the proposed standard. Requiring the determination of the lease term assuming that the lease term began as of the beginning of the period of implementation, and requiring that the lease liability and lease asset be initially measured based on the remaining lease term and associated lease payments as of the beginning of the period of implementation would cause undue cost.

Table 6.0 – Summary of Responses by Question ⁵

	<p>The reason for the undue cost is that there is no consistent methodology or policy that has been followed to record monthly or periodic payments that are made on leasing arrangements. These payments could be recorded in various general ledger accounts, and searching for them and identifying them will be very labor intensive. Determining the population of leases subject to the accounting requirements in the ED will require identification, review and analysis of an enormous number of payment transactions. The DoD suggests that the proposed standard be applied only to leases entered into after the effective date of the proposed standard to reduce difficulties related to identifying and assessing current leases to allow for proper implementation of the proposed standard.</p>
13. TREASURY	<p>The Department of the Treasury generally agrees that the proposed prospective implementation approach as presented in paragraphs 99-100 is appropriate. However, implementing this standard and applying the requirements to leases in the middle of the lease period could potentially present a hardship for agencies with a large number of leases. Due to the number of changes proposed in this exposure draft, it could take a significant amount of time to compile and evaluate all of the leases an agency has. Agencies will have to evaluate leases, assess probabilities of option years, calculate the interest rate in the year of the lease, obtain prices for maintenance and other costs included in the lease payment, calculate and track balances and place them on the balance sheet. The Board should consider phasing in this standard for newly awarded leases.</p>
15. DOL OCFO	<p>We agree with the proposed prospective implementation approach for unexpired intragovernmental leases and that early adoption should not be permitted; same-year implementation for all Agencies is consistent with the treatment of intragovernmental activity and intragovernmental reporting.</p> <p>For non-intragovernmental leases, lessee Agencies should be allowed flexibility in the treatment of unexpired non-intragovernmental leases. For example, lessee Agencies should be allowed the option to continue their current accounting and reporting for unexpired non-intragovernmental leases that have a lease term (under existing GAAP) of between</p> <ul style="list-style-type: none"> -- greater than three years and -- up to six years <p>from the beginning of the year in the year of implementation. The lessee Agency should be allowed to apply this option on a lease-by-lease basis. For unexpired non-intragovernmental leases with a lease term greater than six years from the beginning of the year in the year of implementation, the lessee Agency would be required to apply the new accounting standard. In this way, lessee Agencies would be required to apply the new accounting standard to new non-intragovernmental leases and significant unexpired non-intragovernmental leases and implementation costs would be lower because the number of leases would be lower. We agree</p>

Table 6.0 – Summary of Responses by Question ⁵

	that early implementation should not be permitted.
17. DOJ JMD	Agree. Prefer prospective implementation versus retrospective. This will provide time to gather data on existing leases and capture data on new leases to ensure a successful and orderly transition.
20. NASA	We do not agree. We believe it would not be cost effective to recognize and measure all existing leases with remaining lease terms greater than 24 month at the time this proposed standard is implemented. We believe only leases with significant remaining probable lease terms and lease liabilities be recognized and measured. We believe the Board should consider a more limited scope for existing leases such as those with remaining lease terms of at least ten years and a remaining lease liability of \$500,000 or more. Also, we recommend that the Board provide more specific implementation guidance.
22. GSA	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.
23. DOC	The Department agrees with the proposed prospective implementation approach. The Department believes that this approach will allow for implementation of the requirements on a forward-looking basis, without the complications of retroactive changes.
25. AGA	We agree the prospective implementation approach is the most efficient and cost effect when implementing the proposed standard.

Table 6.0 – Summary of Responses by Question ⁵

<p>QUESTION – 12</p> <p>Do you agree or disagree with the proposed effective date as presented in paragraph 101? Please provide the rationale for your answer.</p>	
2. HHS OCFO	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.
3. SSA OCFO	Agree. The proposed effective date allows adequate time for Agency implementation.
4. DHS OCFO	DHS agrees with the proposed effective date. It should provide adequate time for DHS and components to prepare.
5. USDA NRCS	<p>The federal agencies have used SFFAS 5 and 6, and FASB 13 for any years so I think there is some flexibility with the implementation of any successor accounting pronouncements for leases.</p> <p>If this exposure draft is implemented as is, which I am not in favor of, I am not in a position to project whether our agency would be ready for the changes to our accounting and lease inventory systems by September 30, 2018.</p>
6. USPS OIG	<p>Certain agencies, including the Postal Service, prepare their general-purpose financial statements in accordance with the FASB's accounting standards. The FASB's new accounting standard for leases is effective for fiscal years beginning after December 15, 2018. For the Postal Service and other agencies, this standard is effective in fiscal year (FY) 2020.</p> <p>However, the proposed implementation date for the Board's new lease standard is for reporting periods beginning after September 30, 2018, or FY 2019. If the Board were to delay implementation to FY 2020, implementation would be easier by allowing agencies to develop processes to convert from the FASB standard to the Board's. Therefore, we believe an FY 2020 effective date is more feasible.</p>

Table 6.0 – Summary of Responses by Question ⁵

9. DOD OCFO	The DoD disagrees with the proposed effective date as presented in Paragraph 101. The DoD proposes that the effective date be approximately four years after the issuance date of the proposed standard. This amount of time is needed for federal government entities to develop processes, and design controls and develop systems in order to account for these lease transactions. As a point of reference, the FASB lease standard issued in February 2016, is effective for fiscal years beginning after December 15, 2019 (approximately 46 months).
11. BBG OCFO	Disagree - Less than 2 years may not be enough time to evaluate all leases including the existing leases that are unexpired to be included in the evaluation.
13. TREASURY	The Department of the Treasury generally agrees with the effective date as presented in paragraph 101. However, given some of the challenges that agencies with a large number of leases may face, it could potentially pose a hardship on certain agencies as mentioned above. Therefore, the Board may want to consider an effective date starting with reporting period beginning 2 to 3 years after the FASAB publish date.
14. BBG (MIXSON)	Disagree - Less than 2 years may not be enough time to evaluate all leases including the existing leases that are unexpired to be included in the evaluation.
15. DOL OCFO	<p>To prepare the Financial Report of the U.S. Government, the U.S. Department of the Treasury issues guidance for reporting intragovernmental activity. The Board should consult with Treasury with regard to the effective date for intragovernmental leases to ensure that there is adequate lead time to develop guidance and systems and test processes and systems government-wide for transition to the new accounting standard.</p> <p>For a FY 2019 implementation date, Agencies would remeasure unexpired non-intragovernmental leases as of 09/30/2018 so as to report the adjustments to the beginning balance of cumulative results for first quarter comparative financial statements; this work would begin in FY 2018 and would not provide adequate lead time unless Agencies were provided flexibility in applying the standard to unexpired non-intragovernmental leases.</p>
17. DOJ JMD	Agree. However, the new standard will likely require changes to financial and acquisition systems and related controls. New systems, controls and processes may be needed which will take time to obtain, develop, implement and test.

Table 6.0 – Summary of Responses by Question ⁵

22. GSA	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.
23. DOC	The Department agrees with the proposed effective date, because the Department believes that the expected issuance date of this proposed standard should allow sufficient time for most federal entities to implement the proposed standard timely.
25. AGA	With various proposed exposure drafts and new standards issued we highly encourage FASAB to review the timing of all the new standards and if needed to extend the implementation date of this proposed standard.

Table 7.0 – Respondents

Table 7.0 - Respondents

Name		Organization	Category
1	Scott Moore	Department of Housing and Urban Development, Office of the CFO, Financial Policy and Procedures Division	Federal - Other
2	David C. Horn	Department of Health and Human Services, Office of the CFO, Financial Policy and Reporting	Federal - Preparer
3	Carla A. Krabbe	Social Security Administration, Deputy Chief Financial Officer	Federal - Preparer
4	Mary Peterman	Department of Homeland Security, Office of the CFO	Federal - Preparer
5	Michael Moore	Department of Agriculture, Office of the CFO, Natural Resources Conservation Service	Federal - Preparer
6	Lorie Nelson	U. S. Postal Service, Office of the Inspector General	Federal - Auditor
7	Stone Randolph	Department of Defense, Office of the Inspector General	Federal - Auditor

Table 7.0 – Respondents

Name		Organization	Category
8	April McIlwain	Nuclear Regulatory Commission, Office of the Chief Financial Officer	Federal - Preparer
9	Alaleh A. Jenkins	Department of Defense, Office of the Chief Financial Officer	Federal - Preparer
10	Tom Park	Department of Energy, Office of the Chief Financial Officer	Federal - Preparer
11	Yura Kang	Broadcasting Board of Governors, Office of the Chief Financial Officer	Federal - Preparer
12	Elliot P. Lewis	Department of Labor, Office of Inspector General for Audit	Federal - Auditor
13	Kawan Taylor	Department of the Treasury	Federal - Preparer
14	Trina Mixson	Broadcasting Board of Governors	Federal - Other
15	Cynthia Simpson	Department of Labor, Office of Chief Financial Officer	Federal - Preparer
16	Richard Culbertson	Asset Leadership Network	Association/Industry

Table 7.0 – Respondents

Name		Organization	Category
17	Kennedy Asare	Depart of Justice – JMD – Finance QC&CG	Federal - Other
18	William Fleming	U.S. Securities and Exchange Commission	Federal - Preparer
19	Sherry Lee/Paul McEnrue	Department of the Interior, Office of the Chief Financial Officer	Federal - Preparer
20	Kevin Buford	National Aeronautics and Space Administration, Office of the Chief Financial Officer	Federal - Other
21	Andrew C. Lewis	Greater Washington Society of CPAs	Association/Industry
22	Edward Gramp/Jared Leicht/April Pratt	General Services Administration, Office of the Chief Financial Officer	Federal - Preparer
23	Bruce Henshel	Department of Commerce, Office of the Chief Financial Officer	Federal - Preparer
24	Amanda Nelson	KPMG, LLP	Non-Federal - Auditor
25	Lealan Miller	Association of Government Accountants, Financial Management Standards Board	Association/Industry

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

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24	KPMG LLP	Amanda Nelson	162
25	Association of Government Accountants	Lealan Miller	169

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"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input checked="" type="checkbox"/>	If other, please specify: <u>OCFO, Policy and Procedures</u>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <u></u>
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Scott Moore

Please identify your organization, if applicable.

Organization: Department of Housing and Urban Development

HUD does not have any comments on the proposed guidance.

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.

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.

- 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.

- 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.

- 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.**
- 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.

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

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.

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.

- 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.

- 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.

- 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.

- 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.

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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

Federal Entity (user)

Federal Entity (preparer)

Federal Entity (auditor)

Federal Entity (other)

Association/Industry Organization

Nonprofit organization/Foundation

Other

Individual

X

If other, please specify:

If other, please specify:

Please provide your name.

Name:

David Horn

Please identify your organization, if applicable.

Organization:

Department of Health and Human Services

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.

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Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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- 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.

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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.

DHS Response: DHS agrees with the proposed definition of a lease. It covers all the required elements of a lease.

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.

DHS Response: DHS agrees with the proposed guidance on determining the lease term. It provides specific provisions for determining the lease term.

- 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.

DHS Response: DHS generally agrees with the proposed lease recognition of a lease at the beginning of the lease term as presented in paragraph 19, but recommends FASAB consider re-wording paragraph 20 to reduce confusion. We believe the government would still be recording a liability when:

“20. A lease contract/agreement that transfers ownership of the underlying asset to the lessee at or before the end of the lease, and does not contain termination options (see par. 14 - 15), should be reported as a purchase of that asset.”

However, we believe FASAB is intending to say this would not be a “lease liability?” Perhaps FASAB would consider changing this to reduce confusion?

- 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.

DHS Response: DHS agrees that a lessee should measure the lease liability initially at the present value of payments to be made for the lease term. The ED provides comprehensive guidance on lessee measurement and recognition of the lease liability.

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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.

DHS Response: DHS agrees 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. In most instances, the rate should be able to be inferred from the terms of the lease.

- 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.

DHS Response: DHS agrees 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. This measurement considers the most relevant interest rate when the agreement rate cannot be reasonably estimated.

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.

DHS Response: DHS does not agree with the circumstances that dictate when the lessee must remeasure the lease liability. DHS does not anticipate the events outlined in paragraph 25 would materially affect the aggregate lease liability and remeasurement would present a significant undue cost based on the volume of leases across DHS.

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

DHS Response: The requirements triggering remeasurement would cause undue costs to most DHS components due to the large volume of leases and resource constraints.

- 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.

DHS Response: DHS agrees with the effect of the remeasurement on the carrying value of the lease asset. The asset value should equal the cumulative amount paid excluding finance charges.

- 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.

DHS Response: DHS agrees with the proposed lessee measurement and recognition of the lease asset. The calculation takes all factors into consideration for the recognition of the lease asset similar to the requirements. SFFAS 6 states that capitalized assets should include all costs incurred to bring the asset to a form and location suitable for its intended use. The costs discussed in paragraphs 30-34 are indeed required to bring the asset to a form and location suitable for its intended use.

- 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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DHS Response: DHS agrees with the proposed lessor measurement and recognition of the lease receivable and deferred revenue. The ED provides comprehensive guidance on lease receivable and deferred revenue.

- 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.

DHS Response: DHS agrees with the proposed definition and measurement and recognition of a short-term lease. The proposed definition and measurement recognition aligns with SFFAS 6 which defines PP&E as a tangible asset with an estimated useful life of 24 months or more.

- 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.

DHS Response: DHS agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases. The ED provides comprehensive guidance on intragovernmental leases accounting.

- 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.

DHS Response: DHS agrees with the proposed prospective implementation approach. The reporting period at implementation to record any changes in the leases treated prospectively will streamline the process.

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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.

DHS Response: DHS agrees with the proposed effective date. It should provide adequate time for DHS and components to prepare.

Other comments

1. Q.2: Recommend including FASAB's definition of "probable" as discussed in appendix A paragraph 18.
2. During the February 2, 2016 Task Force meeting, the US Customs and Border Protection (CBP) raised a question as to whether an agency's capitalization threshold should be considered. CBP was told that capitalization threshold would be addressed; however, it still isn't included in this exposure draft.
3. Paragraph 14 says Lease Term equals the noncancelable period, including option periods that are probable. Paragraph 59 says a Short-Term lease is a lease with a maximum possible term of 24 months or less, including options regardless of probability. If a lease has an initial term of 12 months, and 4 additional one-year options are considered not probable, what is the lease term for this lease? Is it a one-year regular (i.e., NOT short-term) lease.
4. Paragraph 16d says a month-to-month lease should be treated as cancelable. TSA has one lease that automatically renews every year and it is probable TSA will continue to allow the lease to renew every year. However, TSA has no future timeline for when we may terminate the lease and there is no established end date in the lease agreement. Should this lease be considered a cancelable lease? Should it be considered a short term lease?
5. Paragraph 60 says a lessee "should recognize an asset if payments are made in advance of the period to which they relate, or a liability for rent due if payments are made subsequent to that period." Is there a certain period of time that should be considered when determining if rent is paid in advance or in arrears? Most reasonable readers of this ED would likely agree that payments one year in advance should be recognized but payments one month in advance should not. Does the Board take any position on a specific time period or even set limits on a time period for recognizing a lease prepayment or liability?
6. The ED does not reference minimum lease payment (MLP) disclosures (we assume because a liability will be recognized). Does this mean no MLP

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disclosure will be required in the future for short-term and intragovernmental leases?

7. The ED only references recognizing rent expense on a straight-line basis for lease incentives, rent holidays, and lease-hold improvements included in the rent payments. Does this mean no adjustment to rent expense will be required in the future for leases that only have changing payments?

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Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

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Name:

Please identify your organization, if applicable.

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.

I believe that the definition is a bit broad and generic, and needs to be enhanced. In our organization we have various groups and staffs that participate in the leasing activities; leasing and contracting officers, property staff and the accounting team, and we all have to be on the same page. Possibly providing examples of the types of contracts and agreements in the appendix would be helpful. I thought that the

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issuance of Technical Release 16: Implementation Guidance for Internal Use Software, was nicely done, and provided us with information and examples that we could share with our Information Technology (IT) staff to get them on point so we could better communicate. I think we need to do something similar, in terms of spelling out we are interested in, with this lease pronouncement.

- 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.

I understand the rationale for the proposed guidance for determining the lease term. I like the use of “probable”, per paragraph A18, when evaluating the lease renewal options that are five or ten years out. It is a challenge for the Real Property Leasing Officer (RPLO), Contracting Officer and/or the accountant to readily determine whether an individual lease will be renewed because the actual tenant/user (State / Program representative) needs to provide input as to whether the property meets his/her needs when determining whether to renew or terminate the lease when approaching the effective renewal date. During my 5+ years of working with real property leases, our agency has opted to renew a higher percentage of leases than it terminates. So the rule of thumb, and the more conservative approach, has been to include the option renewal period(s) as stated in the lease agreement when performing our lease determination analysis (operating or capital lease).

- 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.

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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.

I disagree with the proposal that leases with non-federal entities should be recognized as capital leases because I do not believe that this treatment provides more meaningful and relevant data for federal financial statement users, i.e., the general public.

A summary of the agency's future lease payments is prepared and provided in the notes to the financial statements. The effort and cost to provide the existing summary info is far less than it would be compared to running our lease transactions through the accounting and inventory systems in an effort to report these non-federal leases as capital leases.

Secondly, our agency has approximately 600 leases for office space with non-federal entities, and I am fairly certain that our agency and our parent agency do not have statutory or budget authority to freely purchase any of these buildings. Given that the agency mission is totally unrelated to property and/or property leases, Lease Expense and not Property Plant and Equipment is the correct functional description. Attempting to treat the lease transactions as a financing for a potential purchase, and to account for the payments (NPV) as "government assets" instead of as operating expenses does not make the financial presentation "more meaningful" for the general public. Per paragraph A26, the goal should be to take a 'simplified approach for leases which would be pragmatic and cost efficient'.

For agencies where property is a significant and material part of their activities, such as GSA, then maybe it makes sense to capitalize the non-federal leases. But for other agencies where property leases are a tool needed to perform tasks for the mission, the accounting should be simple and cost efficient as previously stated. The agencies can continue to use their money for their mission and programs, and not have to spend it to enhance accounting and inventory systems, and to hire accountants.

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Thirdly, most if not all leases have a short period (2 to 4 months) where the lessee can terminate the lease. I believe the best presentation remains as an ongoing operating cost and not a capital cost. To have an asset and liability based on 10 to 20 years worth of rent payments is not an accurate presentation at lease inception because the lessee can terminate the lease within the first year.

I feel that the current disclosures in the notes to the financial statements for leases (future payments) provide a good overview for the readers of the financial statements, without having to run the lease-level asset and liability transactions through the general ledger.

- 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.

Valuing the lease liability at the Net Present Value (NPV) of the cash flows for the duration of the lease term potentially overstates the debt for an agreement that can be terminated when the shorter noncancelable period has expired. This requirement is also inconsistent with valuing the asset at the lesser of fair market value (FMV) or NPV.

Another unaddressed question is whether the agency will need to establish an obligation (budgetary resources) to cover the lease liability at lease inception. Some or most agencies will need to have access to additional “no year funding” as the duration of the funding is supposed to match or exceed the lease period.

- 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.

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- 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.
- 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.

I agree that either the implied rate or the published Treasury rate should be used.

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.

The circumstances requiring re-measurement appear reasonable.

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

Based on the info provided, I cannot determine whether there would be undue costs for the re-measurement processes. However, I believe that there will be undue costs for the agencies to enhance their accounting systems and lease inventory systems in order to account for all non-federal leases as capital leases, and to add staff to the accounting teams.

- 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.

Generally the re-measurement of an intangible property asset is achieved through: (1) systemic amortization based on the expected / estimated life of the asset; and (2) adjustments for changes to the

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

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residual value, changes to the annual rental cost, etc. The amortization and adjustment amounts provide an audit trail from the historical cost to the current valuation (net book value). I am not convinced that the re-pricing of the liability should drive the asset balance.

- 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.

I disagree as I see the cost of a lease as a period cost, and not an asset; i.e., pay as you go. Accounting for the leases with non-federal entities as an asset overly complicates a fairly simple transaction. I do not believe this approach is meaningful for anyone other than accountants.

The original valuation for capitalized leased property was the lesser of the NPV or FMV. It appears that this concept has been thrown out the window in favor of the calculated lease liability amount.

- 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.

I disagree based on the similar reasons stated in Q3.

- 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

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***

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.

Our agency capitalizes assets that meet a certain dollar threshold that have a useful life of 2 or more years. So I am fine with short term defined as 24 months or less.

- 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.

I concur with most of the info for the intragovernmental leases, which is to treat the rents as operating expenses for the current period. The exception is the proposed treatment of lease incentives and concessions as reductions to expense (for lessee) and income (lessor) over the lease term. I am not aware that our agency receives or gives any incentives or concessions, but if so, I believe that they are immaterial to the total dollars spent for rents, and to the financial statements as a whole.

- 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.

I cannot offer an opinion at this time as I have some unanswered questions; specifically, (1) will the liability for the leases with non-federal entities need to be funded (obligated); (2) do we undo the

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*

existing accounting that is currently done for the existing capital leases that have been recorded; and (3) would the unused funds from the existing capital leases be available to use to fund the liability in the new world of lease accounting.

- 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.

The federal agencies have used SFFAS 5 and 6, and FASB 13 for any years so I think there is some flexibility with the implementation of any successor accounting pronouncements for leases.

If this exposure draft is implemented as is, which I am not in favor of, I am not in a position to project whether our agency would be ready for the changes to our accounting and lease inventory systems by September 30, 2018.

I would suggest asking the CFOs and IT teams for their thoughts and projections for an implementation date.

**COMMENTS ON THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
EXPOSURE DRAFT OF A PROPOSED STATEMENT OF FEDERAL FINANCIAL
ACCOUNTING STANDARDS, ENTITLED *LEASES: AN AMENDMENT OF SFFAS 5,
ACCOUNTING FOR LIABILITIES OF THE FEDERAL GOVERNMENT AND SFFAS 6,
ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT***

The U.S. Postal Service Office of Inspector General appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board's (the Board) exposure draft *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*.

We reviewed the exposure draft and had specific comments on two selected questions discussed below. The questions are listed below, followed by our response.

Q2. 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.

We understand the logic supporting the Board's proposal defining a short-term lease as a maximum term of 24 months. However, we believe a short-term lease should have a maximum term of 12 months.

Establishing a 12-month maximum term would bring uniformity with the Financial Accounting Standards Board's (FASB) proposed accounting standards update for leases. For those agencies using the FASB's accounting standards, a maximum term other than 12 months would require substantial additional work.

In addition, a 12-month period is used throughout the FASB's Accounting Standards, including the definitions of current assets and current liabilities, and in numerous other instances. We believe accounting standards issued by the Board should be consistent with those issued by the FASB, whenever possible.

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.

Certain agencies, including the Postal Service, prepare their general-purpose financial statements in accordance with the FASB's accounting standards. The FASB's new accounting standard for leases is effective for fiscal years beginning after December 15, 2018. For the Postal Service and other agencies, this standard is effective in fiscal year (FY) 2020.

However, the proposed implementation date for the Board's new lease standard is for reporting periods beginning after September 30, 2018, or FY 2019. If the Board were to delay implementation to FY 2020, implementation would be easier by allowing agencies to develop processes to convert from the FASB standard to the Board's. Therefore, we believe an FY 2020 effective date is more feasible.



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

December 27, 2016

MEMORANDUM FOR EXECUTIVE DIRECTOR, FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD

SUBJECT: Proposed Statement of Federal Financial Accounting Standard Exposure Draft
"Leases"

We appreciate the opportunity to respond to the proposed draft "Leases" and related document, "Questions to Respondents." We have reviewed the documents as requested and have no comment. Should you have any questions or require additional assistance, please contact me or Daniela Mahoney of my staff at 703-604-8912.

STONE.RANDOLPH
PH.R.125999241
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Digitally signed by
STONE.RANDOLPH.R.1259992415
DN: c=US, o=U.S. Government,
ou=DoD, ou=PKI, ou=DODIG,
cn=STONE.RANDOLPH.R.1259992415
Date: 2016.12.28 11:29:02 -05'00'

Randolph R. Stone
Deputy Inspector General
Policy and Oversight

NRC agrees with proposed guidelines in the amendment to (SFFAS) 5, Accounting for Liabilities of the federal government and SFFAS 6, Accounting for Property, Plant and Equipment. The amendment provides more specific guidance that is reasonable and will improve the evaluation and reporting process of leases.

- 1) Yes
- 2) Yes
- 3) Yes
- 4) Yes
- 5) Yes
 - a. agree
- 6) Yes
 - a. no
 - b. agree
- 7) Yes
- 8) Yes
- 9) Yes
- 10) Yes
- 11) Yes
- 12) Yes



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JAN 05 2017

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

Dear Ms. Payne:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board (FASAB) on the Exposure Draft (ED), *Accounting for Leases*. Our response to FASAB's request for comments is organized into two Sections: (1) Responses to the ED questions; and, (2) Comments on other matters contained in the ED.

The DoD understands that the Board undertook this effort in response to questions raised during the development of the Financial Accounting Standards Board's guidance in Accounting Standards Codification 842, *Leases*. However, the DoD notes that there is a divergence between that standard and FASAB's proposal, as discussed in detail in the appendix to this letter.

The DoD does not believe that FASAB has made a compelling case that the information available to a financial statement user under the proposed accounting model represents a significant improvement over the current accounting model, or that it necessarily achieves the goal of comprehensive view of an entity's total obligations that will result in cash outflows in future periods. For these reasons, the DoD does not support the codification of this ED as a FASAB standard.

Thank you for considering the Department's responses and comments. If you have any questions concerning our comments, please contact me.

Sincerely,

Alaleh A. Jenkins
Assistant Deputy Chief Financial Officer

Attachments:
As stated



SECTION 1 – RESPONSES TO EXPOSURE DRAFT QUESTIONS

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.

DoD Response:

DoD does not agree with the proposed definition. The definition is too broad and all-encompassing. The DoD believes that the definition of a lease should specifically exclude agreements such as those excluded from the recently issued Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) on Leases (Topic 842). ASC 842, as enumerated in ASC 842-10-15-1 specifically excludes leases of intangible assets; leases to explore for or use minerals, oil, natural gas, and similar nonregenerative resources; leases of biological assets, including timber; leases of inventory; and assets under construction. In addition the DoD proposes to exclude other intangible assets such as (but not limited to) land rights and rights of way, various types of easements (e.g., utility easements), air rights, mineral rights, and infeasible rights of use. ASC 842 defines leases more specifically and states [in part], “A contract...that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration”. Because of the breadth and complexity of the DoD, the DoD enters into many different types of complex agreements that, under the proposed FASAB standard, would be difficult to categorize as a lease instead of a service arrangement. Therefore, the DoD suggests that the Board provide specific guidance in distinguishing service arrangements from leases, and suggests that the Board expand the guidance currently in paragraph A11 of the ED, and specifically define Service Concession Arrangements (SCAs) as service agreements.

In addition, the DoD believes that FASAB should consider narrowing the definition to specifically state that a lease (1) conveys the “right to control” and (2) that a lease covers “identified property, plant, or equipment (an identified asset)”. The DoD believes that the Exposure Draft should address the concept of “control” as discussed in Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, and the current language referring to “right to use” is too broad a term and may result in inconsistent and incorrect application of the definition of a lease. For example, service agreements may convey a right to use an asset when control is effectively retained by the supplier. Similarly, the DoD believes that the term “nonfinancial asset” is too broadly defined in footnote 16 of paragraph A11, and should not include internal use software, intangible assets, and the types of assets excluded by ASC 842.

The DoD suggests that the Board consider including a flowchart depicting a prescribed decision process to follow in identifying whether a contract is a lease or a service arrangement, and conform the ED to the concepts in the flowchart in ASC 842-10-55-1, including (but not limited to) the concept of substantive substitution rights of the supplier. The DoD enters into many contracts that involve use of assets of a supplier that may not qualify as leases when considering the guidance in ASC 842.

The DoD believes that the proposed definition, as written, will:

- 1) Create a large administrative burden on agencies on an ongoing basis. Including the term "agreement" in the definition adds ambiguity and confusion as to what should or should not be considered as a lease. At a minimum, the DoD suggests that for an "agreement" to be considered a lease for accounting purposes, an agreement should be required to be in writing and executed by each of the parties to the transaction, by individuals who are duly authorized to enter into such an agreement.
- 2) Will not prove to be cost-beneficial to federal government agencies. As federal government agencies are dependent upon ongoing appropriations, the related fulfillment of an agency's future obligations that will result in cash outflows in future periods is entirely dependent on these ongoing appropriations. The DoD believes that this is inconsistent with the concept of Budgetary Integrity in paragraph 13 of SFFAC 1: *Objectives of Federal Financial Reporting*, where "Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations".
- 3) We believe that this is different from a commercial entity where these obligations are important to the portrayal of a commercial entity's financial health and viability, because unilateral rights (i.e., to make alterations at any time to the contract requirements) are not found in commercial relationships as they are with the government.
- 4) Potentially mislead the users of federal agencies' balance sheets by recording assets that have different characteristics than the other assets recorded on the balance sheet. Typically lessees do not have many of the rights in using the leased asset as they would as the owner. Often the owner/lessor retains the right to require lessees to obtain lessor approval to make changes to the leased asset that the lessee desires in order to have the asset in a condition suitable for lessee use. As a result, it does not appear proper to record an asset on the lessee's financial statements unless the terms of the lease provide the lessee with unconditional control of the asset.
- 5) Cause the rights of the parties to the arrangement to all be treated the same, and arrangements that are structured as capital leases (with specific rights of ownership under the current construct) would be accounted for the same as those arrangements that do not contain the same rights.

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.

DoD Response:

The DoD does not agree with the proposed guidance. The DoD believes that for the lessee, fiscal funding

clauses should be considered in determining the noncancelable period, without regard to probability of exercising the fiscal funding clause. Specifically, not considering a fiscal funding/cancellation clause (unless it's probable of being exercised) as a reason to exclude future periods from the noncancelable period will:

- 1) Result in reflecting liabilities on the balance sheet that are analogous to liabilities that are contingent on future events rather than liabilities reflecting events that have already occurred.
- 2) Include liabilities on the balance sheet which are not liabilities based on current laws or regulations, which is contrary to most, if not all, other liabilities recorded on the balance sheet. The DoD, like many federal government agencies, is subject to mandates from Congress such as sequestration, and the annual budget process, which can affect DoD's ability to satisfy obligations such as lease liabilities. At any given time, recording these liabilities would not be an accurate depiction of the DoD's obligations because Congressional mandates could (like sequestration) render certain contracts (like lease contracts) short-term in nature (i.e., they can be cancelled subject to these mandates). Since the federal government lessee can unilaterally terminate the contract at any time, the probability of whether or not this will occur should not be a factor. Fiscal funding clauses in lease contracts should be considered since this reflects both the legal form and economic substance of the lease transaction. Recognizing the legal enforceability and substance of the fiscal funding clause in a lease contract, a maximum of one fiscal year would be the lessee's minimum lease term, thereby qualifying the lease as a short-term lease. These unilateral contractual rights of a federal government lessee are not found in leases where a commercial entity is the lessee. Leases with commercial entity lessees legally commit the commercial entity lessee to a minimum lease term that cannot be unilaterally altered. For leases greater than one year, commercial leases are not similar to government leases, which typically have annual option periods in which the government lessee can unilaterally exercise or terminate the remainder of the lease term without any further liability. This annual opportunity to "opt out" of the remainder of the lease is not included in commercial leases. This major difference of the terms in the lease between commercial entities and federal entities should be considered and respected in how the lease is accounted for since it represents a fundamental difference in the legal liability the entity is committed to. This is supported by the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Federal Government Contractors*, which acknowledges that government contractors are subject to a degree of risk different from their commercial counterparts because of the unilateral contractual right of the government to terminate a contract.
- 3) Cause the accounting for leases to be inconsistent with the accounting for other types of liabilities, such as entitlement programs, as they are reflective of the current legal obligations of the federal government and would only be changed based on changes in law. Recording a liability for a non-finance or non-sales type lease is recording a liability for a future event that may not occur (e.g., the occupancy of a building or office space in the future). This is inconsistent with the definition of a liability as discussed in paragraphs 42 and 46 of SFFAC 5.
- 4) Include as liabilities amounts which are not real liabilities since the federal government can contractually reduce them to zero through a non-appropriation. Including these amounts as liabilities does not provide the user of the financial statements with an accurate depiction of the agency's financial condition, and can be misleading to the users of the financial statements. Instead, this information (significant lease terms) could be included in the notes to the financial statements to achieve the same objective of reporting future use of resources in satisfaction of the respective leases.
- 5) Result in unfunded lease liabilities recorded in the balance sheet and no corresponding obligation in

the Statement of Budgetary Resources (SBR), creating a difference between the obligation in the SBR and the liability on the balance sheet.

- 6) Impose undue hardship on agency financial statement preparers to analyze, prepare, record, and retain information for numerous lease transactions that otherwise would not be needed.
- 7) Be inconsistent with Office of Management and Budget (OMB) budget requirements, which state in OMB A-11:

“For operating leases, budget authority is required to be obligated up front in the amount necessary to cover the Government's legal obligations, consistent with the requirements of the Antideficiency Act. This will include the estimated total payments expected to arise under the full term of the contract or, if the contract includes a cancellation clause, an amount sufficient to cover the lease payments for the first year plus an amount sufficient to cover the costs associated with cancellation of the contract. For each subsequent year, sufficient budget authority is required to be obligated to cover the annual lease payment for that year plus any additional cancellation costs. For operating leases funded by the General Services Administration's Federal Buildings Fund (which is self-insuring under existing authority), only the amount of budget authority needed to cover the annual lease payment is required to be obligated.”

“For operating leases, budget authority will be scored against the legislation in the year in which the budget authority is first made available in the amount necessary to cover the Government's legal obligations. The amount scored will include the estimated total payments expected to arise under the full term of a lease contract or, if the contract will include a cancellation clause, an amount sufficient to cover the lease payments for the first fiscal year during which the contract is in effect, plus an amount sufficient to cover the costs associated with cancellation of the contract. For funds that are self-insuring under existing authority, only budget authority to cover the annual lease payment is required to be scored.”

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.

DoD Response:

Please see the response to Q2 above.

In addition, the DoD agrees that intragovernmental and short-term leases should be exempted from the requirement to recognize a lease liability and a right-to-use lease asset. However, the DoD does not agree with the proposed recognition at the beginning of the lease term (for leases other than intragovernmental and short-term) for the following reasons.

- 1) The government does not always have the benefits of an asset and often has limited control over the use of the asset being leased.
- 2) Lessees typically do not have many of the rights in using the leased asset as they would as the owner. Often the owner/lessor retains the right to require lessees to obtain their approval to make

changes to the leased asset that the lessee desires in order to have the asset in a condition suitable for the lessee's use. As a result, it does not appear proper to record an asset in the lessee's financial statements unless the terms of the lease provide the lessee with right to obtain substantially all of the economic benefits from control of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period) and unconditional use of the asset.

- 3) The government has no title to or control of these assets under contracts that would potentially be considered leases. The government obtains the right to use an asset owned by others, but has no right to pledge, assign, or encumber these assets; or claims to these assets, and therefore recording a right to use asset in the government's financial statements does not seem to be appropriate accounting. Additionally, because the lessor (as owner) would record the asset on its balance sheet, the lessee's recording of a right to use asset would result in double counting of the 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.

DoD Response:

The DoD agrees with the requirement in principle, if in fact there was a liability to be recognized. However, the DoD does not agree with the proposed requirement to measure and recognize a lease liability when there is the presence of a fiscal funding clause as discussed in Q2 above.

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.**

DoD Response:

The DoD does not agree. The "interest rate implicit in the lease" is not defined in the ED. ASC 842 defines the interest rate implicit in the lease as "The rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that a lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred initial direct costs of the lessor". If there was a requirement to apply the definition in ASC 842, it would cause significant judgment on the part of lessees that may lead to assumptions that are not accurate. In addition, Appendix B of OMB Circular A-11 requires the use of the treasury borrowing rate to calculate the present value of the minimum lease payments and using an interest rate implicit in the lease would depart from this requirement.

- 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.**

DoD Response:

The DoD agrees that the rate used to discount future lease payments should be the lessee's incremental borrowing rate, not the lessor's rate implicit in the lease. The DoD believes that the incremental borrowing rate is more appropriate because it is less subjective and would lessen the burden of determining future lease payments by the lessee, and at the same time be reflective of the rate the lessee would have incurred to borrow, over a similar term, the funds necessary to purchase the leased asset. A Treasury bill rate using a term commensurate with the term of the lease would result in a more objective measure of the future lease payments and result in consistency in application between federal government agencies. This would also be consistent with the concepts embodied in OMB Circular A-11.

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.**

DoD Response:

The DoD believes that it would be appropriate to remeasure the lease liability due to the circumstances in paragraph 25, however, the DoD believes that clarity may be needed to define "certain changes". For practical reasons, it would be necessary to adjust the liability in these circumstances. The remeasurement should take place upon the actual occurrence (versus the likelihood) taking place based on conclusive evidence, since the terms and conditions of the signed lease contract or agreement still exist and the lessee has a non-cancellable right to use the asset.

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

DoD Response:

The DoD believes that the requirements triggering remeasurement will significantly increase the costs of accounting for a lease. The DoD believes that federal government entities would have to change existing processes, and design and implement systems and controls to account for these changes. Current systems are not configured to handle the complexities of accounting for lease remeasurements.

- 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.**

DoD Response:

The DoD believes that it would be appropriate to remeasure the lease asset as presented in paragraph 33 and further explained in paragraph A19. For practical reasons, it would be necessary to adjust the lease asset in the same manner as the lease liability.

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.

DoD Response:

Regarding initial direct costs, the DoD believes that initial direct costs that are ancillary charges necessary to place the lease asset into service (i.e., commissions and/or payments made to an existing tenant to incentivize that tenant to terminate its lease) should be excluded from the determination of the lease asset as those costs are expected to be minimal (as they are with most commercial leases) and to include these costs as part of the lease asset would cause undue costs of identifying, assessing, and accounting for these costs that would outweigh the benefit of presenting these costs as an asset. ASC 842-10-30-10 specifically states that costs to negotiate or arrange a lease that would have been incurred regardless of whether the lease was obtained, such as fixed employee salaries, are not initial direct costs. The following items are examples of costs that the DoD believes should be excluded from the measurement of the lease liability that are not considered initial direct costs (as enumerated in ASC 842-10-30-10(a) through 30-10(c):

- General overheads, including, for example, depreciation, occupancy and equipment costs, unsuccessful origination efforts, and idle time;
- Costs related to activities performed by the lessor for advertising, soliciting potential lessees, servicing existing leases, or other ancillary activities;
- Costs related to activities that occur before the lease is obtained, such as costs of obtaining tax or legal advice, negotiating lease terms and conditions, or evaluating a prospective lessee's financial condition.

The DoD believes that a simpler and better accounting for these costs would be to include them as period expenses.

The DoD further recommends adding illustrative examples of the concepts embodied in paragraphs 33 and 34 of the ED.

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.

DoD Response:

Other than Enhanced Use Leases (EULs), the DoD is generally not a lessor. EUL is a method for funding construction or renovations on federal property by allowing a private developer to lease underutilized property, subject to several provisions, with rent paid by the developer in the form of cash or in-kind services. Because of the structure of these arrangements, the long terms of EULs, and the complexities related to the compliance with requirements of Section 2667 of Title 10, U.S. Code, EULs are would prove difficult to account for under the proposed standard. Therefore, the DoD recommends adding illustrative examples of the concepts embodied in paragraphs 36 – 48 and revising the ED to address EULs.

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.

DoD Response:

The DoD agrees with the definition of 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”. However, the DoD does not agree that options to extend should be included without regard to their probability of being exercised. The DoD believes that options to extend would be excluded until those options are probable of being exercised. The DoD believes that this treatment is appropriate because of the unilateral rights afforded to the government related to termination of contracts.

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.

DoD Response:

The DoD agrees with the proposed definition, measurement, recognition, and disclosures of

intragovernmental leases as presented in paragraphs 75 – 95 and further explained in paragraphs A26 – A29. More specifically, the DoD believes that leases between federal government agencies that consolidate to the overall U.S. Government financial statements, and non-government entities that are required to be consolidated in a federal government agency's financial statements in accordance with SFFAS 47, *Reporting Entity*, would qualify as intragovernmental.

The DoD does not agree with the disclosure requirements for intragovernmental leases embodied in paragraphs 87 and 95 of the ED. The preparation of these disclosures would require systems and processes to track and account for these leases, which would contradict the purpose of the intragovernmental "exception" to recording lease assets and liabilities, and add complexity and cost.

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.

DoD Response:

The DoD disagrees with the proposed guidance. The DoD believes that the proposed standard should apply only to leases entered into after the effective date of the proposed standard. The DoD believes that federal government entities will need time to develop processes, and implement systems and controls to be able to apply the proposed standard. Requiring the determination of the lease term assuming that the lease term began as of the beginning of the period of implementation, and requiring that the lease liability and lease asset be initially measured based on the remaining lease term and associated lease payments as of the beginning of the period of implementation would cause undue cost.

The reason for the undue cost is that there is no consistent methodology or policy that has been followed to record monthly or periodic payments that are made on leasing arrangements. These payments could be recorded in various general ledger accounts, and searching for them and identifying them will be very labor intensive. Determining the population of leases subject to the accounting requirements in the ED will require identification, review and analysis of an enormous number of payment transactions. The DoD suggests that the proposed standard be applied only to leases entered into after the effective date of the proposed standard to reduce difficulties related to identifying and assessing current leases to allow for proper implementation of the proposed standard.

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.

DoD Response:

The DoD disagrees with the proposed effective date as presented in Paragraph 101. The DoD proposes that the effective date be approximately four years after the issuance date of the proposed standard. This amount of time is needed for federal government entities to develop processes, and design controls and develop systems in order to account for these lease transactions. As a point of reference, the FASB lease

standard issued in February 2016, is effective for fiscal years beginning after December 15, 2019 (approximately 46 months).

SECTION 2 – COMMENTS ON OTHER MATTERS CONTAINED IN THE EXPOSURE DRAFT

- 1) Purpose (Paragraphs 1 – 3) — Federal agency financial statements, and the users of those financial statements, are different than the financial statements of commercial entities and/or state and local government financial statements and their users. For this reason, the DoD requests that the Board consider the following reasons for not following the recent direction of the FASB and GASB in changing lease accounting.
 - The FASB revised lease accounting for commercial entities primarily due to a concern that the amount of off balance sheet debt related to leases was a large amount.
 - Based on a study of 2014 public company filings, FASB technicians found more than \$1 trillion in undiscounted lease obligations are reported in footnotes and not on the balance sheet.
 - FASB found that credit rating agencies, industry focused analysts, and sophisticated investors, were estimating lease obligations and adding them to the company's balance sheet for their analyses.
 - State and municipal financial statements are often used to evaluate their worthiness for industrial revenue bonds, tax-exempt securities, municipal bonds, etc.
 - The amount of debt carried by a commercial entity, or state or local entity usually impacts a user's analysis of the credit worthiness of the entity. More often than not, a user of the financial statements of a federal government entity would not consider credit worthiness of said entity as all federal government entities are fully backed by the full faith and credit of the Federal Government itself.
- 2) Scope exceptions (Paragraph 6) — ASC 842 excludes from its scope leases in which the customer does not have a right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use in certain circumstances. The Board should consider a similar scope exception for both lessees and lessors. While many government contracts would appear to be leases on the basis of the definition in the ED, they may, in substance, be providing the customer with access to certain assets to provide a service (e.g., use of airport runways and taxiways by airlines).
- 3) Intragovernmental leases (Paragraph 75) — In the Basis for Conclusions, paragraph A26, the ED references an educational session provided by the General Services Administration (GSA) to the FASAB. Based on the information received, the DoD believes that the Board should further define intragovernmental leases, and more specifically, whether leases with the GSA (as assignor to other federal government agencies) qualify as intragovernmental under the ED. It is unclear whether the GSA would be considered to be an agent for the federal government or the primary lessee and sublessor.
- 4) In the final version of the proposed standard, the DoD suggests providing illustrative examples (similar to those in ASC 842) of how to apply this proposed standard.
- 5) Impact on DoD Audit Efforts — Each military service and other components within the DoD are currently focused on financial improvement and audit readiness efforts. Most of these entities are preparing for their initial financial statement audit and a large amount of resources are being utilized


in this undertaking. Having to transition to the accounting as set forth in this ED would be a significant task for the following reasons:

- a) There is a finite amount of resources that DoD has to work on audit readiness. These resources are both internal (e.g. government employees) and outside contractors. In the current environment, it is virtually impossible to obtain additional funding for audit readiness efforts. As a result, having to transition to the accounting as set forth in this ED would divert some of the audit resources to work on implementing this proposed standard.
 - b) The effort for the implementation to this proposed standard and the required steps for transition and ongoing accounting go beyond accounting for leases. Currently, lease payments can be recorded to any one of hundreds of general ledger accounts since there is no written policy providing guidance. Each of the DoD entities most likely records lease payments using different general ledger accounts so there is not an efficient way to review all lease payments made. In addition, there is no way to identify a payment transaction in the general ledger is related to a lease versus other types of payments that are routinely made. As a result, in order to identify the population of lease payments made for analysis of what type of lease exists, would be an immense undertaking. Also, to properly account for leases on an ongoing basis, changes to policies, procedures, and systems would be needed so that lease payments are recorded in accordance with the proposed standard.
- 6) The ED proposes standards for classifying leases that are different than the scoring criteria in OMB A-11. Creating this difference between financial statement accounting and OMB lease classification will cause unnecessary additional confusion and complications between budgetary accounting and proprietary accounting.
 - 7) Paragraph 6 of the ED states, "This definition does not include contracts or agreements for services unless...". We suggest that this paragraph be expanded to define what is intended to be included in "services".
 - 8) The DoD suggests that the proposed standard specifically provide concepts related to capitalization thresholds similar to that provided in paragraph 13 of SFFAS 6, addressing situations where the dollar amounts of lease payments for the minimum lease term are less than the entity's capitalization threshold.
 - 9) Footnote 7 on page 13 of the ED states "The lease asset should be classified as PP&E unless the underlying asset is not PP&E. In those instances, such assets should be classified with the underlying asset." The DoD believes based on the principles underlying the proposed accounting treatment, since both the legacy operating leases and capitalized leases are now both categorized as operating leases, and since this is based on the right to use, that the asset reported on the balance sheet should be reported as an intangible asset, and not PP&E. These assets resulting from the lease are more akin to patents, copyrights, and trademarks than to hard tangible assets that are typical of the underlying assets reported as PP&E on the balance sheet.

**Department of Energy**

Washington, DC 20585

January 5, 2017

MEMORANDUM FOR THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**FROM:**Tom Park 
Director, Office of Finance and Accounting**SUBJECT:**

Comments on the Federal Accounting Standards Advisory Board's Exposure Draft Leases: *An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment.*

The Department of Energy (Department) appreciates the opportunity to comment on Exposure Draft Leases: *An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment.* Generally, the Department found that many of the proposed changes correlate with the Financial Accounting Standards Board (FASB) and other accounting governing bodies.

Our responses to the questions in the exposure draft are as follows:

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.

Generally, the Department agrees with the Board's definition of a lease.

Q2. The Board is proposing that the lease term be determined as the period during which a lessee has a non-cancelable right to use an underlying asset (referred to as the non-cancelable 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 non-cancelable 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.

The Department agrees with the Board's proposed determination of a lease term.

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.

The Department agrees with the proposed guidance for lease recognition. The guidance complements OMB Circular A-11 Appendix B scoring rules on leases. We would just request that any new standard be implemented in conjunction with the roll out of new SGL accounts and guidance on the transaction/posting models.

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.

The Department partially agrees with the proposed lessee measurement and recognition of lease liability presented paragraphs 21 - 29. We think an additional "required" lease payment type should be added in addition to the outlined criteria listed under paragraph 21 a-g as follows:

“Payments required to be made by the lessee under non-routine or unique circumstances (such as triple net leasing arrangements).”

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.

The Department agrees the rate the lessor charges the lessee should be used to measure future lease payments.

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.

The Department agrees with the proposed guidance for discounting lease payments and the lessee's use of its incremental borrowing rates when the lessor's borrowing rate cannot be readily estimated. However, we would like for FASAB to consider providing guidance on situations in which the lessor's incremental borrowing rate cannot be reasonably estimated, and the lessee's borrowing rate on the lease is less than Treasury's borrowing rate for securities of similar maturity to the term of the lease.

Q6. The Board is proposing that the lessee should re-measure 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 re-measured 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 re-measurement 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.

The Department partially agrees with the circumstances provided in which the lessee must re-measure the lease liability. We would like to know how FASAB is interpreting the distinction between "significantly affect" and "material".

The term "significantly affect", is not defined in the current version of the FASAB Handbook of Federal Accounting Standards (June 2016). Also, we are concerned the term "significantly affect", as it is discussed at paragraph 25, is subject to misinterpretation or misapplication in context with the re-measurement of lease liabilities.

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

The requirements triggering re-measurement would cause undue costs if the change is not "material" to the agency's financial statements. Also, for agencies that have entered into leases

with "variable" interest rates, the re-measurement process may be burdensome because of the continuous change in interest rates.

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.

The Department would like for the Board to consider further explaining its position on the effects of re-measurement on the carrying value of the leased assets, as discussed in paragraph 33.

Paragraph 33 states, *"The lease asset generally should be adjusted by the same amount when the corresponding lease liability is re-measured based on paragraphs 25–29. However, if this change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the flows statement as a gain."*

Specifically, the Department would like for FASAB to address under which circumstances a leased asset can have any "carrying value" left over to be reported as a "gain", if the associated lease liability has been reduced to zero?

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.

The Department agrees with the proposed lease measurement and recognition of the leased asset.

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.

The Department agrees with the proposed lessor measurement and recognition of the lease receivable and deferred revenue.

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.

Generally, the Department agrees with the proposed definition, measurement, and recognition of a short term lease. However, we are concerned there is a possible misinterpretation between paragraphs 14 and 59 on the determination of a lease. We would like for the Board to clarify whether it is the Board's intent for Paragraph 14 to be the final qualifier for defining a lease term.

Paragraph 14 states, *"The lease term is the period during which a lessee has a non-cancelable right to use an underlying asset (referred to as the non-cancelable 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."*

Paragraph 59 states, *"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 non-cancelable 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."*

Please consider the following examples:

- 1) The Department enters into a lease contract [as a lessee] that is 16 months with an option period of 9 months. If the Department has the option to cancel the 9 month option period of its lease, then the maximum lease term to be evaluated would be 16 months (the non-cancellable portion of the lease) under paragraphs 14 and 59.
- 2) The Department enters into a lease contract [as a lessee] for 16 months, with the probable exercise of a 9 month lease option period. Based on the Department's interpretation of paragraph 14, this lease contract will not qualify as a short term lease because the lease term is for 25 months. Therefore, this lease will have to be tracked and recorded as a capital 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, 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.

The Department partially agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases.

At Paragraphs 90 and 91, we would like FASAB to clarify why the distinction was made between a "lease incentive" and "lease concession", when both terms as applied to intragovernmental leases, appear to be synonymous?

A "lease incentive" and a "lease concession" is a form of payment given by the lessor to entice the lessee to sign the lease. They both result in reduced rental income received by the lessor and paid by the lessee. Even the basis for conclusions at paragraph A29, which states *"lease incentives and concessions should be recognized by the lessee/lessor as reductions of lease rental expense/lease rental income"*, supports the analogous interpretation of these two terms.

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.

The Department agrees with the proposed prospective implementation approach as presented in paragraphs 99 - 100.

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.

The Department agrees with the proposed effective date.

Other Matters

Although an update to SFFAS 10 (Accounting for Internal Use Software) is not specifically a topic for discussion under this exposure draft, for future FASAB activities, we thought it may be helpful for us to provide you with our questions pertaining to the treatment of software under the new lease standards.

Question #1: SFFAS 10 already classifies internal use software as PP & E. What other software besides internal use software is expected to be treated as a lease?

Question #2: Is internal use software included as a right-to-use asset? What assets would this definition include—only plant and equipment assets and internal use software? For example, would agreements for “software as a service” (SaaS) or cloud applications or data storage fall under this guidance, or are these items considered services and therefore exempt?

Question #3: Since SaaS applications are not controlled by the lessee in the same manner as a more customized Enterprise Resource Planning (i.e., Oracle) system, does that warrant different accounting treatment?

Question #4: Are annual payments for software licenses considered leases? If yes, are the annual renewals considered short term leases?

Question #5: Can the Board clarify or define “if and when” to include software licenses or maintenance licenses as a “lease” if the license is for a period longer than 2 years? For example:

- One-time perpetual leases with annual maintenance agreements.
- Non-perpetual licenses “lease” software for use for a specified period of time. Users are required to remove the software from their computer if they cease paying for the license fee.
- Some license agreements allow the user to purchase “maintenance” or “software assurance” along with the original license fee, which entitles the user to receive new versions of the software until the maintenance agreement expires.

Question #6: How are umbrella software agreements accounted for?

QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/documents-for-comment/. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by **January 6, 2017**.

- 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.

Agree - but I would add a short description of distinction between capital & operating lease in the definition.

- 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.

Agree - I would add additional clause on determining probability of exercising renewal option to be little more clear.

- 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.

Agree - appears to be consistent with FASB standard updates on lease.

- 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.

Agree - appears to be consistent with FASB standard updates on lease.

- 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**¹ (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.

Agree - the interest rate is used in the formula for present value of future lease payments so the paragraph 23 appears reasonable.

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.

Agree - the incremental borrowing rate is the reasonable estimate for the interest rate to be used for the present value calculation.

¹ A federal lessee's incremental borrowing rate would be the Department of the Treasury borrowing rate for securities of similar maturity to the term of the lease unless the entity has its own borrowing authority.

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.**

Agree - changes in the circumstances listed in paragraph 25 would significantly change the present value of lease and the lease liability that remeasurement would reflect more accurate balance of the liability/asset.

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

It would cost to remeasure but it is necessary to accurately report the asset/liability related to the lease. Small changes in one factor could cause significant change in lease asset/liability.

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.**

Agree - the lease asset value would move with the value of the lease liability.

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.

Agree - appears to be consistent with FASB standard updates on lease.

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.

Agree - this would match with lessee's book.

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. *Agree - but what about at the time of remeasurement presented in paragraph 25-29?*

- 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. *Not sure why intragovernmental lease is treated differently.*

- 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. *Agree - to consistently report all components of reports.*

- 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.

Disagree - Less than 2 years may not be enough time to evaluate all leases including the existing leases that are unexpired to be included in the evaluation.

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"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input checked="" type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

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.

We agree with the definition of a lease and the Board's inclusion of both contract and agreement in the definition. Additionally, we believe that the definition should incorporate the concept that a lease conveys the right to control the use of the non-financial asset, consistent with FASB standards.

- Q2. The Board is proposing that the lease term be determined as the period during which a lessee has a non-cancelable right to use an underlying asset (referred to as the non-cancelable 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 non-cancelable 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.

We agree with the proposed guidance on determining the lease term, including the non-cancelable period and the specific provisions. We believe that the specifics provided in paragraphs 15 – 18 will be useful in promoting consistency in application of the standard.

- 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.

We agree with the recognition of a lease at the beginning of the lease term as that is the date when the value (use of the non-financial asset) commences.

- 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.

We agree with the proposed lease measurement and recognition of the lease liability, except that penalties noted in paragraph 21f should only be included in the measurement if termination is probable (see “probable” language in paragraph 21d and 21e that is excluded from 21f). We agree that the lessee taking possession of the underlying asset or gaining access to use the underlying asset is an event that creates an obligation until the end of the lease term. We suggest for the Board’s consideration that “significantly” in paragraphs 25-27 be changed to “materially” to avoid ambiguity as the related term “materiality” is defined in paragraph 4.

- 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.**

We agree that the rate the lessor charges the lessee, which may be the interest rate contained in the lease, should be used to measure the future lease because a lease is a financing transaction and this treatment is consistent with the rate indicated in FASB's standard for 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.**

We agree 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 since because a lease is a financing transaction and this treatment is consistent with FASB's rate for leases when a rate implicit in the lease cannot be readily determined.

- Q6. The Board is proposing that the lessee should re-measure 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 re-measured 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 re-measurement 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.**

We agree with the circumstances identified in paragraph 25; however, as worded, this list is narrow and does not seem to allow for re-measurement outside of these circumstances. We suggest that the Board consider adding broader situations that would require the lessee to re-measure at subsequent financial reporting dates, such as "Other changes that are expected to significantly affect the amount of the lease liability". Such a change would allow for flexibility by preparers for items possibly not considered by the Board.

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

At our agency, leases are not significant to the overall financial statements. We do not believe that the requirements triggering re-measurement would cause undue costs.

- 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.**

We agree with the effect of the re-measurement on the carrying value of the lease asset as presented, understanding that this would require a change from recognizing the asset at adjusted historical cost. We agree that should the adjustment reduce the carrying value of the lease asset to zero, then a gain would be appropriate. We suggest that the Board change "flows statement" to "Statement of Net Cost" for clarity in paragraph 33.

- 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.

We agree with the proposed lessee measurement and recognition of the lease asset, including how the initial measurement of lease liability 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.

We agree with the proposed lessor measurement and recognition of the lease receivable and deferred revenue as it appears to be meet revenue recognition standards, and aligns with measurement and recognition of lease liability to be consistent where applicable. However, we suggest for the Board's consideration that:

- 1) Guidance on the accounting for a financed sale of the nonfinancial asset as mentioned in paragraph 37 or applicable reference to guidance be provided; and
- 2) "Significantly" in paragraphs 43-44 be changed to "materially" to avoid ambiguity as the related term "materiality" is defined in paragraph 4.

It is unclear why the Board has determined that a difference should exist between lessee liability measurement (paragraph 21) and lessor asset (receivable) measurement (paragraph 40) related to the exercise price of a purchase option and penalties for lease termination. As such, we recommend including this determination in its Basis for Conclusions.

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.

We agree with the proposed definition and measurement and recognition of a short-term lease. We believe that 24 months or less is appropriate in defining short-term from a cost-benefit perspective and for consistency with Property, Plant & Equipment recognition.

- 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.

We agree with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases, especially within the consolidation entity. With respect to the use of the term “intragovernmental” in OMB Circular No. A-136 where the transaction or event is outside the reporting entity, we suggest using the term “inter-entity” to avoid confusion and better identify the leases falling into this category.

We agree that a simplified approach for recognizing intragovernmental leases would be more realistic and cost efficient. We believe the guidance on lease incentives, concessions, and improvements are adequate and consistent between lessor and lessee within a consolidation entity.

- 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.

We agree with the proposed future implementation approach, if properly disclosed in the notes to the financial statements, and believe that the approach is practical and cost effective.

- 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.

We agree with the statement effective for reporting periods beginning after September 30, 2018 as it should provide adequate time for agencies to properly plan for implementation.

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"/>	
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"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

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.

The Department of the Treasury agrees with the proposed definition of lease presented in paragraph 9 and further explained in paragraph 15. It provides enough information to capture the various types of lease activities. Also, the definition appears to be consistent with that in the "Capital and Operating Leases, A Research Report" published in 2003 and on the FASAB site. In addition, there should be further clarification or examples as to what is included or excluded from the definition of a lease. This definition appears to cover "Share-in Savings Contracts" or "Energy Savings Performance Contracts" (ESPC's), for definitions see attached. The Department has these contracts, and has been specifically told that for GTAS reporting ESPC's are not to be recognized as lease

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liabilities (capital lease liabilities), that they are considered "Other Liabilities Without Related Budgetary Obligations" (SGL 299000). Under these proposed guidelines, the Department will encounter a difference in reporting for GTAS versus for the audited financial statements.

- 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.

The Department of the Treasury agrees with the proposed guidance in determining the lease term as presented in paragraphs 14-18 and A16-A18. The standard provides sufficient guidance for determining the "lease term" as well as factors to consider when assessing the likelihood of exercising option years.

- 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.

The Department of the Treasury agrees with the proposed lessee recognition as presented in paragraph 19. We agree that at the beginning of a lease, the lessee obtains the right to use the underlying asset and that this right meets the definition of an 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.

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

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.

The Department of the Treasury agrees with the proposed lessee measurement and recognition of the lease liability as presented in paragraphs 21-29 and further explained in paragraphs A20-A21. This appears to be a practical and straightforward measurement approach.

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.

The Department of the Treasury agrees with the rate the lessor would charge as discussed in paragraph 23. This approach appears to be reasonable and consistent with current practices. The Board may consider including the following in footnote 9 "...Treasury borrowing rate for securities of similar maturity (see *OMB Circular A-94 Appendix C*)."

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.

The Department of the Treasury agrees with the lessee's incremental borrowing rate also discussed in paragraph 23. This approach appears to be practical and straightforward.

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.

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***

- 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.**

The Department of the Treasury agrees with the circumstances when the lease must be remeasured as presented in paragraph 25. Each of the five different situations listed could result in a significant change of the lease liability -- change that would warrant its remeasurement.

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

The Department of the Treasury generally does not believe the requirements triggering remeasurement would cause an undue cost. However, agency accountants may have to develop a new process (es) to reevaluate leases during reporting periods while already at capacity compiling required reports and statements. Agencies that have a large number of leases may need to establish a monitoring program and evaluating the probability of exercising option years will also need to be assessed each year.

- 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.**

The Department of the Treasury agrees with the carrying value of the lease asset as presented in paragraph 33 and further explained in paragraph A19. This appears to be a practical approach and is reasonable that the "right of use" of personal property or lease asset carrying value be impacted when the liability is remeasured. However, there is a question of what would happen in a subsequent period if the remeasurement increases the lease, would you then increase the asset?

- 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.

The Department of the Treasury agrees with proposed lessee measurement and recognition of the lease asset as presented in paragraphs 30-34 and further explained in paragraph A22. This measurement approach is consistent with historical cost accounting applicable to PP&E.

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***

- 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.

The Department of the Treasury agrees 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. The Board's basis for its conclusion that federal entity lessees and lessors should account for the same transaction in a way that mirrors how the other party accounts for it is important in establishing accounting and financial reporting standards.

- 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.

The Department of the Treasury agrees 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. Treasury agrees with aligning short-term leases with the PP&E standard which prescribes an estimated useful life of 2 years or more. We also support the cost reduction rationale the Board has included in the basis for its conclusion for this proposal.

- 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.

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

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.

The Department of the Treasury agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases as presented in paragraphs 75-95 and further explained in paragraphs A26-A29 as this approach appears to be consistent with SFFAS 47, Reporting Entity.

- 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.

The Department of the Treasury generally agrees that the proposed prospective implementation approach as presented in paragraphs 99-100 is appropriate. However, implementing this standard and applying the requirements to leases in the middle of the lease period could potentially present a hardship for agencies with a large number of leases. Due to the number of changes proposed in this exposure draft, it could take a significant amount of time to compile and evaluate all of the leases an agency has. Agencies will have to evaluate leases, assess probabilities of option years, calculate the interest rate in the year of the lease, obtain prices for maintenance and other costs included in the lease payment, calculate and track balances and place them on the balance sheet. The Board should consider phasing in this standard for newly awarded 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.

The Department of the Treasury generally agrees with the effective date as presented in paragraph 101. However, given some of the challenges that agencies with a large number of leases may face, it could potentially pose a hardship on certain agencies as mentioned above. Therefore, the Board may want to consider an effective date starting with reporting period beginning 2 to 3 years after the FASAB publish date.

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

QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/documents-for-comment/. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by **January 6, 2017**.

- 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.

Disagree- The FASB definition update (A contract, or part of a contract, that conveys the right to control the use of identified PPE for a period of time in exchange for consideration) Is easier understood.

- 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. Agree - explained well.

- 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. Agree - Is somewhat consistent with FASB ASU No. 2016-02 Leases (FASB ASC 842). 24 months vs 12 mos is a logical difference.

- 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. Agree - appears to be consistent with FASB standard updates on lease.

- 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**¹ (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.** Agree - the interest rate is used in the formula for present value of future lease payments so the paragraph 23 appears reasonable.

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.** Agree - the incremental borrowing rate is the reasonable estimate for the interest rate to be used for the present value calculation.

¹ A federal lessee's incremental borrowing rate would be the Department of the Treasury borrowing rate for securities of similar maturity to the term of the lease unless the entity has its own borrowing authority.

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.**

Agree/ - But changes in the circumstances listed in paragraph 25 could significantly change the present value of lease and the lease liability.

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

Remeasurement at every financial reporting date that remeasurement would reflect more accurately will be labor intensive.

Yes, adjusting every subsequent reporting date will be labor intensive.

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.**

Agree - the lease asset value should be to the corresponding value of the lease liability.

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.

Agree - appears to be consistent with FASB standard updates on lease.

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.

Agree - Since these will all be non-Federal receivables in nature

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. Agree - but what about at the time of remeasurement presented in paragraph 25-29?

- 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. Agree- These are all eliminated in consolidation and it avoid s unnecessary cost to report.

- 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. Agree - Is consistent with FASB requiriment

- 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.

Disagree - Less than 2 years may not be enough time to evaluate all leases including the existing leases that are unexpired to be included in the evaluation.

From: [Simpson, Cynthia - OCFO](#)
To: [FASAB](#)
Cc: [Payne, Wendolyn M](#); [Valentine, Monica R](#); [DiGiantommaso, Jennifer M. - OCFO](#); [Wyes, Tesfaye T - OCFO](#); [Maurer, Jennifer - OCFO](#)
Subject: US DOL/OCFO Comments on FASAB ED, "Leases: An Amendment of SFFAS 5 . . . and SFFAS 6 . . ."
Date: Friday, January 06, 2017 2:27:16 PM

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), Division of Financial Reporting (DFR) on the exposure draft of proposed Statement of Federal Financial Accounting Standards, "Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment (September 26, 2016)." Comments were requested by January 6, 2017. DOL/OCFO/DFR is a Federal entity preparer.

Given the timing of when the ED was issued (close to end of fiscal year) and when comments were due (last pay period of the leave year), for future EDs please consider the timing for issue dates and comment deadlines. If the timing of an ED cannot be changed, providing reminders to Agencies during the comment period is helpful. In this way Agencies will be able to provide more timely and substantive comments.

We appreciate the opportunity to provide comments. If there are any questions, please contact: Cynthia Simpson, simpson.cynthia@dol.gov or Jennifer Maurer, Maurer.Jennifer@dol.gov
Both may be reached at 202-693-6800.

Regards,

Cynthia D. Simpson
U.S. Department of Labor
Office of the Chief Financial Officer
Division of Financial Reporting

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U.S. Department of Labor
Office of the Chief Financial Officer
Division of Financial Reporting
Comments on FASAB Exposure Draft, "Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment (September 26, 2016)"

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.

DOL/OCFO/DFR Response:

(1) DOL/OCFO/DFR disagrees with the use of “nonfinancial asset” in the definition of a lease. “Monetary assets” and “nonmonetary assets” are more appropriate terms and that the Board should use these terms (and the meaning for these terms) consistently throughout the accounting standards and the FASAB Handbook. The examples of assets as described in footnote 3 on Page 11 are examples of nonmonetary assets that exclude certain items, e.g., operating materials and supplies.

(2) For an intragovernmental lease, please specify if the “agreement” in the definition of lease includes a memorandum of understanding.

(3) Intragovernmental leases should exclude contracts/agreements for which the receiving entity would record an imputed financing source/imputed cost because the receiving entity does not fully reimburse the performing entity.

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.

DOL/OCFO/DFR Response:

(1) If one of the purposes of the standard is to report the Federal entity’s liabilities on the balance sheet for transactions that are off-balance sheet under current GAAP, then the definition of noncancelable period should also include language about the minimum period for which the Federal lessee has an obligation to make lease payments.

(2) In paragraph 17.a, use “lease incentive” instead of “economic incentive” for

consistency in the document.

(3) In paragraph 17.d, can the federal entity be a lessor? If not, language should be clear that it is for federal lessee.

(4) In paragraph 18, if a federal lessor has the option to terminate the lease (e.g., paragraph 15.c) then the need to reassess the lease term should not be limited to the actions of the lessee (e.g., in the current reporting period, the lessor may inform the lessee that it will terminate the lease in a future reporting period).

- 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.

DOL/OCFO/DFR Response: Please refer to the response to question 2, item (1).

- 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.

DOL/OCFO/DFR Response: In paragraph 25, it is possible that a combination of these changes could have offsetting effects and the net effect may not significantly affect the amount of the lease liability. It is possible that the effects of paragraphs 25 through 29 are offsetting and the net effect does not significantly affect the amount of the lease liability. There should be an accounting standard as to whether remeasurement would be required in these cases.

- 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.

DOL/OCFO/DFR Response: No comment at this time.

- 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.

DOL/OCFO/DFR Response: No comment at this time.

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.

DOL/OCFO/DFR Response: Please refer to the response to question 4.

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

DOL/OCFO/DFR Response: No comment at this time.

- 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.

DOL/OCFO/DFR Response: The proposed standard for remeasurement of the carrying value of the lease asset may be the only practical and expedient treatment. The Board should consider whether remeasurement should be made to a valuation allowance that is separate from accumulated amortization.

In paragraph 35.b, the Board should consider disclosure of the valuation allowance.

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.

DOL/OCFO/DFR Response: Please refer to the response to question 6.c.

- 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.

DOL/OCFO/DFR Response: No comment at this time.

- 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.

DOL/OCFO/DFR Response: In paragraphs 60 and 61, the accounting standard should describe the treatment of cases where the reduction of expense/lease income due to straight-line amortization of the rent holiday results in a negative amount of expense/lease income for the accounting period.

- 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.

DOL/OCFO/DFR Response:

(1) For paragraph 75, please refer to the responses in question 1.

(2) For paragraph 83, the accounting standard should describe the treatment of cases where the reduction of expense due to straight-line amortization of lease incentives results in a negative amount of expense for the accounting period.

(3) For paragraph 85, the accounting standard should describe the treatment of cases where the reduction of expense due to straight-line amortization of lease concessions results in a negative amount of expense for the accounting period.

(4) For paragraph 86, a leasehold improvement may exist for a lease asset (e.g., paragraph 17.b); therefore, the definition of leasehold improvement should appear in a section of the standard applicable to both non-intragovernmental leases and intragovernmental leases. For non-intragovernmental leases, if remeasurement changes the carrying value of the lease asset, then the Board should describe the effect on the leasehold improvement. For non-intragovernmental leases, if impairment changes the carrying value of the lease asset, then the Board should describe the effect on leasehold improvement.

(5) For paragraph 90, the accounting standard should describe the treatment of cases where the reduction of rental income due to straight-line amortization of lease incentives results in a negative amount of rental income for the accounting period.

(6) For paragraph 92, the accounting standard should describe the treatment of cases where the reduction of rental income due to straight-line amortization of lease concessions results in a negative amount of rental income for the accounting period.

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.

DOL/OCFO/DFR Response: We agree with the proposed prospective implementation approach for unexpired intragovernmental leases and that early adoption should not be permitted; same-year implementation for all Agencies is consistent with the treatment of intragovernmental activity and intragovernmental reporting.

For non-intragovernmental leases, lessee Agencies should be allowed flexibility in the

treatment of unexpired non-intragovernmental leases. For example, lessee Agencies should be allowed the option to continue their current accounting and reporting for unexpired non-intragovernmental leases that have a lease term (under existing GAAP) of between

-- greater than three years and

-- up to six years

from the beginning of the year in the year of implementation. The lessee Agency should be allowed to apply this option on a lease-by-lease basis. For unexpired non-intragovernmental leases with a lease term greater than six years from the beginning of the year in the year of implementation, the lessee Agency would be required to apply the new accounting standard. In this way, lessee Agencies would be required to apply the new accounting standard to new non-intragovernmental leases and significant unexpired non-intragovernmental leases and implementation costs would be lower because the number of leases would be lower. We agree that early implementation should not be permitted.

At this time, DOL/OCFO/DFR has no comments on implementation for non-intragovernmental leases of lessor Agencies.

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.

DOL/OCFO/DFR Response: To prepare the Financial Report of the U.S. Government, the U.S. Department of the Treasury issues guidance for reporting intragovernmental activity. The Board should consult with Treasury with regard to the effective date for intragovernmental leases to ensure that there is adequate lead time to develop guidance and systems and test processes and systems governmentwide for transition to the new accounting standard.

For a FY 2019 implementation date, Agencies would remeasure unexpired non-intragovernmental leases as of 09/30/2018 so as to report the adjustments to the beginning balance of cumulative results for first quarter comparative financial statements; this work would begin in FY 2018 and would not provide adequate lead time unless Agencies were provided flexibility in applying the standard to unexpired non-intragovernmental leases.

Edits

Edits for the document are provided below.

a. In the table of contents: Disclosure Requirements of lessees (lessees should be capitalized); "implementation" should be capitalized; Project history (history should be

capitalized)

b. Paragraph 15.a uses “initial lease period” when the rest of the proposed standard uses “initial lease term.”

c. Avoid the use of “only” if possible, e.g., paragraphs 16.c, 18, 64, 74.

d. Page 30, paragraph [29.], italicize “SFFAS X.”

-

Comments on Other Aspects of the Proposal

In paragraph 64, if the lease asset is reclassified to the appropriate class of owned asset, then the lease liability should likewise be reclassified to the appropriate class of liability.



January 6, 2017

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

Name: Richard C. Culbertson
Organization: Asset Leadership Network (ALN)
<http://assetleadership.net/>

On behalf of ALN I am pleased to have the opportunity to provide comments to the Federal Accounting Standards Advisory Board's exposure draft concerning leases.

ALN is a non-partisan organization whose purpose is to help all types of organizations achieve strategic objectives by realizing greater value from their assets. Our membership is comprised of individuals, which collectively have hundreds of years of experience in the full depth and breadth of asset management including: leading, creating and vetting of consensus standards (e.g. the ISO 55000 Asset Management and ASTM Standard E2279 - ... Guiding Principles of Property Asset Management ...), financial, operations, reporting, auditing, etc., in the management of Government and non-Government property.

We thank you Monica Valentine, D. Scott Showalter and the rest of board for the very good efforts in this exposure draft! When this is adopted as a standard we expect substantial benefits for the tax payer and the Government.

Unfortunately leases for real and personal property have been used over the years to keep assets off the balance sheet and meet budgets rather than minimize total cost to the taxpayer and the Government.

Overall we are in agreement with the approach the board has taken. We have some concern with agencies and departments using their capitalization threshold as a means to circumvent the new standard. The standard should also address a requirement to provide adequate documentation and approvals of leases – operating and capital.

Attached are our answers as requested.

If you have any questions please contact me at my email address or phone number below.

Thank You,

Richard C. Culbertson
Asset Leadership Network
Director Corporate Governance
609-410-0108
Richard.C.Culbertson@gmail.com

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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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Federal Entity (other)	<input type="checkbox"/>	If other, please specify:	<input type="text"/>
Association/Industry Organization	<input checked="" type="checkbox"/>	Asset Leadership Network	
Nonprofit organization/Foundation	<input type="checkbox"/>		
Other	<input type="checkbox"/>	If other, please specify:	<input type="text"/>
Individual	<input type="checkbox"/>		

Please provide your name.

Name:

Please identify your organization, if applicable.

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Q1. 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.

A1. Generally agree with the approach, but a lease should also include an "arrangement" along with a "contract" and an "agreement", this is important to retain the concept of recognizing "financial substance over legal form". Some arrangements maybe not be in the form of a contract or a written agreement but should be considered a lease. Including arrangements to the definition should help capture significant off book transactions and make them more transparent.

Q2. 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.

A2. Agree. The guidance promotes transparency of useful information for decision makers and others. Transparency promotes accountability, self correction and good decision making.

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- Q3.** 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.

A3. Agree -- for units that meet the entity's capitalization threshold. No -- for contracts, agreements or arrangements for units under the capitalization threshold. The importance and primary benefit of changing the standard is to promote transparency and good decision making. Too many times a lease-purchase analysis will show items should be purchased rather than leased but because of budgetary constraints are more on capital funds than expense funds, items are leased rather than purchased. If entities have relatively high thresholds for the capitalization of PP&E, most equipment items will not be above the capitalization threshold – so it will be business as usual, prompting continued waste.

- Q4.** 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.

A4. Agree. This is necessary to balance with the asset side of the balance sheet and provides exposure to the true liability.

Q5.

- 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.

A5a. Agree. This approach faithfully represents the transaction.

- 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.

A5b. Agree. This approach promotes recognizing reality and good decision making.

Q6.

- 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.

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A6a. Agree. This approach is provides a faithful representation of the lessee's liability.

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

A6b. It could, if the materiality exception is not applied. Internal procedures should strive to balance faithful representation vs. materiality, similar to impairment testing.

- 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.

A6c. Agree. This seems to be a reasonable and consistent approach that properly recognizes changes.

- Q7.** 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.

A7. Yes. This approach is consistent with concepts of properly recognizing direct and indirect costs as well as financial substance over legal form.

- Q8.** 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.

Q8. Agree. The general approach of accounting between the lessor and lessee should be consistent. The lessor not subject to FASAB but subject to FASB or IASB should recognize under the appropriate standard.

- Q9.** 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.

A9. Agree. Once this standard is becomes effective, the some in user community will most likely want to continue the old practices of keeping leases off the balance sheet. The stated approach will constrain those tendencies.

- Q10.** Do you agree or disagree with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases as presented in paragraphs 75 - 95

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and further explained in paragraphs A26 - A29? Please provide the rationale for your answer.

A10. Agree. Intergovernmental leases or arrangements when consolidated are eliminated. Cost and benefits of finite accounting are probably not worthwhile.

Q11. Do you agree or disagree with the proposed prospective implementation approach as presented in paragraphs 99 - 100? Please provide the rationale for your answer.

A11. Agree. This approach will shorten the learning curve and will stimulate the creation of better internal policy, forms, standard leases agreements and practices.

Q12. Do you agree or disagree with the proposed effective date as presented in paragraph 101? Please provide the rationale for your answer.

A12. Agree. Should encourage anticipatory actions and early adoption, particularly avoiding of wasteful agreements that may

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Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

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.

Agree. The previous standard only addressed the definition of a capital lease and did not provide sufficient guidance. The revised definition aligns FASAB guidance with FASB's February 25, 2016 Accounting Standards Update (ASU) which was intended to improve financial reporting about leasing transactions as well as providing standards for intragovernmental leasing. Overall, the improved lease accounting requirements will provide greater transparency in federal financial reporting.

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

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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.

Agree. However, incremental funding under a single and/or multiple continuing resolutions could be problematic. Paragraph 16.c. attempts to address this by stating that “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** [*italics and emphasis added*] that the clause will be exercised. The standard is silent on how to determine what is “probable.” FASB Statement of Financial Accounting Standards No. 5 defines “probable” as “the future event or events are likely to occur”. The Board attempts to clarify in A18 explaining that FASB’s probability threshold is “reasonably certain” and that FASB’s probable definition equates to “more likely than not (>50% probability), however it can be difficult to determine when a lapse in appropriation is “reasonably certain” or “more likely to occur” and federal managers typically do not know until the last moment.

Also, If the lease has a cancellation clause, but it is probable that the option years will be extended by the lessee as mentioned in Paragraph 14, should this be considered in effect a non-cancelable lease ?

- 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.

Agree. Will provide greater transparency in federal financial reporting (specifically the balance sheet) and align FASAB guidance with FASB.

- 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.

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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.

Agree. Concur with the explanation provided in paragraphs A20-A21.

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.**

Agree. Determining the appropriate discount rate to use when measuring lease assets and liabilities is to find the rate that best reflects the interest rate embedded within the contract (that is, the rate the lessor charges the lessee). The lessee should discount lease payments at the rate the lessor charges the lessee (that is, the rate implicit in the lease) when that rate can be readily determined.

- 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.**

Agree. The lessee's incremental borrowing rate is the best proxy or practical means of trying to reflect the rate the lessor charges the lessee when the implicit rate is not readily determined.

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.**

Agree. Reassessments should be conducted if there are significant triggering events.

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

No. However, the tasks associated with identifying, inputting and continuously monitoring key elements of the underlying calculations would require significant manual effort if the entity maintained a large number of leases and if an automated system solution was not available. In these situations the costs could outweigh any potential benefits especially if the remeasurements were not material.

- 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.**

Agree. Concur with the explanation provided in paragraph A19.

Also, On Q6/paragraph 25 - Circumstances when the lessee must remeasure: What does "significantly affect" equate to, I assume this is akin to significantly enhance?

- 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.

Agree. Concur with the explanation provided in paragraph A22.

- 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.

Agree. Concur with the explanation provided in paragraphs A23-A24.

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- 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.

Agree. FASAB assessed costs and benefits in relation to financial reporting (the cost constraint on useful financial reporting).

- 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.

Agree. Concur with the explanation provided in paragraphs A26-A29.

- 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.

Agree. Prefer prospective implementation versus retrospective. This will provide time to gather data on existing leases and capture data on new leases to ensure a successful and orderly transition.

- 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.

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Agree. However, the new standard will likely require changes to financial and acquisition systems and related controls. New systems, controls and processes may be needed which will take time to obtain, develop, implement and test.

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Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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Name:

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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.

SEC Response: Agree. The proposed definition is concise and reasonable.

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

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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.

SEC Response: the lease term should not include option periods, for the following reasons:

- a. For option periods, a proposed lease liability does not appear to meet the definition and characteristics of a liability. SFFAC 5 defines a liability as “A liability is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand,”¹ and states that, “A present obligation is incurred **when the government takes a specific action or an event occurs that commits or binds the government.**”² Even a contingent liability depends upon events that are not under the control of the reporting entity. An option to renew a lease is not a binding agreement is completely under the control of the reporting entity and so does not create a liability, as defined in SFFAC 5.
- b. The private sector standards upon which the proposed standards are based were intended to prevent known abuses in the private sector, such as leases that were deliberately structured in order to qualify for a desired accounting treatment. These abuses did not occur in the federal government, in part because the reasons for the abuses relate to conditions that do not exist in the federal government. The federal government is fundamentally different from the private sector. The federal government does not pay taxes or persuade stockholders to buy stock. It has an ability to impose mandatory taxes as its primary source of revenue. For this reason, the federal government should have a compelling reason to parallel private sector accounting principles. For example, the principles of accrual accounting clearly do have a compelling advantage for departure from federal budgetary accounting, because of the advantage of the matching principle for representational faithfulness in recognizing expenses when they are incurred and revenues when they are earned. However, the ED has provided no compelling reason why proprietary accounting should depart from budgetary obligations regarding the length of the lease term. In addition, longer lease terms that include option years greatly increase the level of uncertainty in estimating the lease asset and liability and make it more likely that the estimated asset and liability will be misstated.
- c. The likelihood of exercising option periods is uncertain and subjective. Over long periods of time, such as lease option periods, lease terms are often highly unpredictable, because they are subject to major changes in financial priorities and mission goals that can occur when federal administrations change. For example, downsizing, upsizing, or changes in geographical location may occur, and often have occurred, as directed by

¹ SFFAC 5, par. 39

² SFFAC 5, par. 42 (bold added)

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Congress and the President, to reflect changing priorities as expressed by the voting public. Predicting whether an agency will exercise option periods for long-term leases implies a degree of certainty greater than actually exists, which may be misleading for readers of the financial statements.

d. The subjective nature of guessing whether option periods will be exercised is likely to create disagreements between agencies and their auditors, which would require the use of personnel resources for accountants and auditors to resolve, with no clear value added. This is important regarding the increasing emphasis on the federal government “doing more with less” and/or reducing the size, scope, and cost of the federal government.

- 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.

SEC Response: Agree, provided that there are exceptions for both intragovernmental leases and short-term leases, with the definition of short-term leases broadened to include five years at the beginning of a new lease or remaining on existing leases at the initial implementation date.

- 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.

SEC Response: Disagree. Paragraph 21g is too broad a category for inclusion in the calculation of the lease liability. The requirements for calculating the liability should have explicit exclusions for payments for routine operating costs, such as utilities and maintenance, even in cases where the payments will be made to the lessor. When, for example, a lessee may be required to make utility payments to the lessor instead of to a utility company, this does not change the substance of the transaction; it is an operating expense that should be charged to the reporting period, and not be included in the lease asset/lease obligation calculation. The explicit exclusions would also serve to make reporting more uniform within each agency and throughout the federal government, because there is likely little or no consistency in how these operating expenses are paid by lessees.

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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.**

SEC Response: Disagree. The lessor's interest rate often is not identified in the lease and cannot be readily determined. Because the alternative is to use the lessee's interest rate, which will always be considerably lower, there would be a huge variation in the interest rates used for this calculation. Accordingly, there are two reasonable options for uniform and comparable reporting: (a) the Treasury rate for bonds of a similar period, or (b) some other readily determinable rate, such as the published market rate for AAA bonds of similar length. The Board should select only one of these options for the sake of uniformity, because option (a) would be a much lower rate than option (b).

- 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.**

SEC Response: Partially agree. There are two reasonable options for uniform and comparable reporting: (a) the Treasury rate for a similar period, or (b) some other readily determinable rate such as published market rates for AAA bonds of similar length. Disagree that these options should only be used if the lessor's rate cannot be determined. The Board should select only one of these options for the sake of uniformity, because option (a) would be a much lower rate than option (b).

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.**

SEC Response: Disagree. Remeasurement should only be required when clearly unavoidable, such as lease termination or major modification. Regarding the requirement

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in paragraph 25e, as explained in the response to Q5a above, the lessor's interest rate should not be used in discounting to present value, because the lessor's interest rate is often unknown; as a result, the resulting calculations would be inconsistent among different leases even within the same federal agency. The ED does not provide a compelling rationale for why agency resources should be used for remeasurement except when remeasurement is unavoidable.

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

SEC Response: Yes, the requirements triggering remeasurement would cause undue costs, especially for high-volume lessees such as GSA. This would be particularly true for requirement 25a if agencies are required to include option years in the lease term. See Q2 for SEC comments on including option years in the lease term. The ED does not provide a compelling rationale for why agency resources should be used for remeasurement except when remeasurement is unavoidable.

- 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.**

SEC Response: Agree. The recognition of a lease asset and liability should not impact net position. A lease asset should never be valued at less than zero.

- 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.

SEC Response: Conditionally agree, if SEC recommendations on (a) explicit exclusions (Q4) and interest rate (Q5) in the calculations are incorporated in the revised requirements.

- 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

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and further explained in paragraphs A23 - A24? Please provide the rationale for your answer.

SEC Response: Partially agree. Lessor reporting should parallel lessee reporting, including the SEC recommendations in Q1-Q7.

- 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.

SEC Response: Disagree. A short-term lease should be defined as a lease with a non-cancelable period of five years or longer. Reason: the implementation of the lease asset/lease liability requirements will be considerably labor-intensive, and should not be required for relatively short-term leases.

- 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.

SEC Response: Agree. The lease assets, liabilities, revenues, and expenses for intragovernmental leases would be eliminated for the consolidated government-wide financial report. There is no compelling rationale for expending agency resources on increasing agencies' reporting burden with complex reporting requirements for intragovernmental amounts that are eliminated in the consolidation process.

- 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.

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SEC Response: Agree.

- 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.'

SEC Response: Disagree. The proposed effective date should accommodate the need for additional systems and staffing needed by large-volume non-intragovernmental lessee agencies such as GSA to implement the new requirements.

Additional comments: Impact on the Statement of Net Cost.

The ED focuses entirely upon the balance sheet and the notes, with detailed requirements for calculating the asset and liability and a detailed list of disclosures. In contrast, for the Statement of Net Cost, there is no detailed guidance for how to calculate and recognize expenses. Paragraph 31 states that agencies should amortize the lease asset in a "systematic and rational" manner. Would that include amortizing the lease asset so that the amortization plus the interest would result in as total lease expense that is equally distributed throughout the lease term, which effectively would parallel current reporting of expenses for an operating lease? That would qualify as "systematic and rational," because the right to use the leased asset, and the benefit of using the leased asset, is identical in each period throughout the lease term. Paragraph 35 requires agencies to calculate and report the principal and interest implicit in the calculation of the present value of the lease asset and lease liability. If this means that agencies will be required to distort period lease expenses, by front-loading them, and reporting a larger total lease expense early in the lease and a smaller expense in later lease periods, the ED has provided no justification for this distortion of expenses from one period to another. If the standard would permit allocating the expense on a straight-line basis, it would appear that the calculation and disclosure of principal and interest would impose a reporting burden that would serve no clear purpose. The ED appears to allow either method of calculating expenses (S/L or skewed), which would result in a lack of consistent accounting principles used for, and reporting of, lease expenses throughout the federal government for long-term non-intragovernmental leases. The Board should issue a revised ED that would include a discussion and rationale for expense calculation and recognition in the Basis for Conclusions. The revised ED should also include an illustrative example, showing period expenses and an illustrative disclosure.

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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.

PFM: Agree. The definition is concise enough to capture federal leasing activities and yet not too restrictive. Specifically, the inclusion of "agreement" in the definition provides flexibility for the inclusion of leasing activities that may not be legally enforceable but have financial impacts on the reporting entity.

BIO: Agree. It is left open enough to provide flexibility. If you look in a dictionary, the definition of lease is a contract by which one party conveys land, property, services, etc., to another for a specified time, usually in return for a periodic payment. So, I think the proposed definition provides clarity with flexibility.

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BOEM/BSEE: Agree.

BOR: Disagree. Suggest clarifying where easements and land rights, licenses, concession agreements, etc. fall under this definition.

DO: Agree with the definition.

IA: Agree.

OSM: Agree. This provides a clearer understanding of what a lease is.

- 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.

PFM: Disagree with the definition. Lease Term is defined as “the period during which a lessee has a noncancelable right to use an underlying asset, plus each option period if it is probable...”. Disagree with the use of the phrase “**noncancelable right**” as it seems to imply that the lease term is the period during which the lessee’s right to use the underlying asset cannot be canceled by the lessor. Suggest rephrasing to something such as “the period during which either the lessor or lessee cannot terminate the contract or agreement without penalty”. Also suggest rephrasing “option period” to “option renewal period” to be clear.

In addition, Paragraph 15 is confusing. 15a and 15b seem to be the same, and only 15c defines “noncancelable period”. Agree with paragraphs 16 - 18.

BIO: I disagree with the definition. When a lease is negotiated, the lease is identified by a term (10 years for example) with a firm term (5 years) for example. The firm term is the timeframe that the Lessor amortizes the tenant improvements over in order to get his investment back. If the tenant cancels the lease during this firm term period, then the tenant will owe the unamortized tenant improvements to the Lessor in a lump sum payment. The term after the firm term and before the expiration date of the lease is still part of the lease term and is not considered option years. Option years are called renewal periods in the leasing world. These are negotiated for after the lease term (10 years). So, for example a lease could be a 10 year lease, 5 year firm, with 4 one-year renewal periods. So, this lease could technically be 14 years long.

BOEM/BSEE: Agree.

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BOR: Agree.

DO: Agree with the proposed guidance.

IA: Agrees (in part). IA believes that determining probabilities of extensions will pose problems.

OSM: Agree, it makes sense that we should account for the lease for the amount of time the lessee has a right to use the asset.

- 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.

PFM: Agree. This is consistent with the asset and liability definitions in SFFAC 5.

BIO: I agree.

BOEM/BSEE: Clarification and/or confirmation of interpretation of the subleases section of the ED needed. Our interpretation of subleases: when GSA is the original lessee with a non-intragovernmental lessor and then leases that non-intragovernmental lease to another government entity, the other government entity is the new lessee and should apply the "intragovernmental" general lessee guidance for this lease. Is this the correct interpretation? There is no definition of what 'general lessee guidance' is in the ED. 'General lessee guidance', specifically, is only used under the Subleases section, but 'general guidance' is used only under the 'intragovernmental' section of the ED.

BOR: Agree.

DO: Disagree with the proposed lessee recognition of a liability and asset at the beginning of a lease term. It appears that in this case FASAB is creating guidance to mirror private sector guidance. However, Federal accounting standards do not always need to mimic private sector standards as government missions are often distinctly different than a private company's mission and the information stakeholders might need or want differs as well. According FASB's Amendment of the FASB Accounting Standards Codification No. 2016-02, Leases (Topic 842), "Previous leases accounting was criticized for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions." The users of private sector financial statement differ from the users of Federal government users.

When a private company enters into a lease agreement, they may very well need to record a liability as stakeholders certainly have a need to know of the future liabilities of a

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company. However, recording a liability for the Federal government for leases in certain instances, such as noted in Paragraph 16c, "A fiscal funding or cancellation clause should be considered in determining the lease term only when it is probable that the clause will be exercised," I do not believe is accurate. In the case of the Federal government, a change in administration or an abrupt end to a specific project may result in the cancellation of a lease with no future obligation. If the purpose of the financial statements of the Federal government is to paint a true picture of its financial position, I would argue that certain lease liabilities are not true liabilities for the actual going concern of the Federal government. Additionally, by recording a liability and an associated asset, there is no impact on the net position of the Federal government, only an inflation of balance sheet figures. I believe that the current OMB Circular A-136 guidance regarding the disclosure of leases within the footnotes of agencies' financial reports is adequate for reporting the financial position of the Federal government. Requiring the recording of liabilities and assets for leases adds a burden to agencies where the benefit does not outweigh the cost.

IA: Need clarification. GSA Operating agreements shall not be capitalized and no liability shall be reported? When there's a purchase option on a newly signed lease contract- will the asset purchase be recorded at that time or will a lease asset/liability still be recorded until the time of purchase and then the Asset purchase will be recorded? Paragraph 21E seems to confuse this issue.

OSM: Yes, if we have lease we need to recognize we should have a liability/PPE right to use lease asset on one side and a Receivable/Deferred revenue on the other.

- 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.

PFM: Partially agree. 21f, payments for penalties for terminating the lease, should not be considered in measuring the initial lease liability but should be considered in remeasurement of the liability when considering terminating the lease during the noncancelable period.

BIO: I agree with the majority of the paragraphs. I have concern about 21d and 21f. 21d is very vague. Measurement of lease liability includes "Amounts that are probable of being required to be paid by the lessee under residual value guarantees". In my mind, tax adjustments would be included in this purview. Tax adjustments are probable of being required, however, it is unknown what those adjustments would be until the Lessor provided the tax receipts from the previous year. So, how could those be included in a liability determination? As for 21f, measurement of lease liability includes payments for penalties for lease termination. If a lessee terminates the lease early (during the firm term

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of the lease), the Leasing Contracting Officer and the Lessor negotiate the terms of that penalty. It starts with the unamortized portion of the tenant improvements that have left to be paid and can be negotiated from there. If the Landlord has a tenant looking to move into that space right away, he may waive a good portion of that penalty to get the lessee out sooner. What I'm pointing out is that this amount is not firm and is negotiable, so how do you determine the amount to apply to the lease liability?

BOEM/BSEE: Undecided, see clarification and/or confirmation of interpretation is needed. See Q3 response.

BOR: Partially Agree. A lease does not really contain interest. Have concerns regarding the cost benefit. Do not see the value of discounting the lease and reporting the interest.

DO: Disagree with the proposed lessee measurement and recognition of the lease liability. Requiring the measurement of lease liabilities at the present value of payments could place an enormous burden on agencies to individually track each and every lease and adjust them every month for GTAS (Governmentwide Treasury Account Symbol Adjusted Trial Balance System) reporting. The current requirement of an annual footnote disclosure within agencies' annual financial reports seems adequate for Federal government reporting purposes. See Q3 response.

IA: Agree with the present value and other items to calculate the Liability. However- For A21- the full obligation would occur at the inception of the contract for the liability amount? What about ISA vs DLA leases- with DLA obligation s/b annual.

OSM: Agree-We should only have to recognized what is the current value of the lease when we enter into the lease and then adjust as needed.

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.**

PFM: Agree as it's the actual rate charged.

BIO: For private sector leases, this is acceptable. However, for Government leases, this is harder to determine. A Leasing Contracting Officer must get the interest rate the Lessor. This can prove to be difficult. In addition, that rate does not necessarily provide an accurate account for the escalation of the rents on the lease. In most cases, the operating expenses are the only portions of the rent that are escalated and they are

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escalated per the CPI Index rates. So, these rates could be significantly different depending on the time.

BOEM/BSEE: Undecided, if the lease is through GSA for a non-intragovernmental lease, what is spelled out in the occupancy agreement for rates/charges is what is billed, why would the future lease payments need to be discounted?

BOR: Partially Agree. See response to question 4.

DO: Disagree with discounting future lease payments. See Q3 and Q4 responses.

IA: Agree - this is the rate actually charged

OSM: Agree-we will leave this up the FASAB to determine

- 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.**

PFM: Agree but not sure how to determine lessee's incremental borrowing rate.

BIO: For private sector leases, this is acceptable. However, if this is a Government lease, there is no incremental borrowing rate for Government tenants. The Lessor's rate would need to be used and I disagree with using that per my answer above.

BOEM/BSEE: Undecided, where would a bureau get their incremental borrowing rate from?

BOR: Partially Agree. See response to question 4.

DO: Disagree with discounting future lease payments. See Q3 and Q4 responses.

IA: Agree - Lessor's rate should be the first consideration.

OSM: Agree-We will leave this up to FASAB to determine

- 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.

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- 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.**

PFM: Agree as the circumstances will affect the liability.

BIO: I agree. If significant changes are negotiated to a lease that affect the rates, square footage, or payments, then the lease liability should also change as well.

BOEM/BSEE: Might not be cost effective.

BOR: Agree. The change in the lease should trigger the remeasurement. Periodic remeasurements should not be required.

DO: Agree with the remeasure proposal.

IA: Agree - logical to re-measure in these circumstances.

OSM: Agree - We should always remeasure amounts we have on the financial statements whenever we prepare them to ensure they are accurate and reflect the current situation.

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

PFM: No, as only significant changes are considered for remeasurement.

BIO: I don't believe so.

BOEM/BSEE: Might not be cost effective.

BOR: Reevaluating the future liability would be necessary if the circumstances of the lease changed. If the requirement is to remeasure all leases periodically, this would cause undue costs.

DO: As stated in responses to previous questions, I believe the entire process of measuring and recording lease liabilities and assets creates an undue cost to the Federal government.

IA: Unsure at this point- certainly a possibility.

OSM: No I don't think so since it would be part of the normal process of doing business with a lease agreement.

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- 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.**

PFM: Agree, as the position of the entity has not been changed due to the remeasurement (net effect 0 to the balance sheet).

BIO: I disagree. If the lease asset value is carried at the initial amount of lease liability, that is the total rent paid over the lease term. So, if that liability will be the asset value, how do you depreciate the lease asset? A leased asset is something you do not own. Therefore, how do you handle the accounting of that depreciation of that asset value?

BOEM/BSEE: Might not be cost effective.

BOR: Agree. If the carrying value of the leased asset is reduced to zero a gain should be reflected on the statement of cash flows.

DO: Agree.

IA: Need to elaborate as to why a gain would result.

OSM: Yes - assets and liabilities should always match between the lessor and the lessee.

- 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.

PFM: Agree. The benefits derived from the lease should be the same for each period in the lease term. Including these costs and amortizing over the lease term on a straight-line basis will match the costs to the benefits.

BIO: I disagree. See my answer in Q6c.

BOEM/BSEE: Undecided, see clarification and/or confirmation of interpretation is needed. See Q3 response.

BOR: Agree. Entities must include all costs associated with the leased asset.

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DO: If the Board is going to require a liability be recorded for leases, then I believe the asset should be recorded in the amount of the liability only. To require agencies to record other costs as an asset and then amortize the amounts creates a burden where the costs do not outweigh the benefits.

IA: Agree - inclusions/exclusions are logical.

OSM: Yes - gain whatever the lessor measurement and recognition standards are, the lessee should mirror it.

- 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.

PFM: Agree. This is consistent with the definitions of asset and liability in SFFAC 5.

O (Tami Skinner): I agree. However, this applies to private sector leasing, not Government leases.

BOEM/BSEE: Undecided, see clarification and/or confirmation of interpretation is needed. See Q3 response.

BOR: Agree.

DO: If the Board is going to implement the proposed lessee requirements, then I agree with the lessor measurement and recognition.

IA: Agree - this is consistent with the lessee accounting treatment (as the other party).

OSM: Yes, if we have lease we need to recognize we should have a liability/PPE right to use lease asset on one side and a Receivable/Deferred revenue on the other.

- 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.

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*

PFM: Agree, as recognizing an asset and liability for leases less than 24 months is not cost-effective.

BIO: I agree. It is good to have a specific definition and two years is a reasonable timeframe.

BOEM/BSEE: Agree.

BOR: Agree.

DO: Agree with the proposal.

IA: Agree. Costs outweigh benefits to implement the standards for leases 2 years or less and this is also consistent w/ the useful life determination for PP&E.

OSM: Agree - We will leave this up to FASAB to determine. One issue we might want to consider is maybe considering a short term lease to be one year or less since that is what we normally consider when classifying liabilities into current vs noncurrent. Maybe keeping the same time line would help the statements be more consistent.

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.

PFM: Agree. This will avoid double-counting assets and liabilities at the government-wide level, and it will avoid issues with intragovernmental reconciliations

BIO: I agree. No further comment.

BOEM/BSEE: Agree - see Q3 for clarification and/or confirmation of interpretation is needed. Also, for lease incentives and concessions, the guidance states these should be recognized as reductions of lease rental expense by the lessee on a straight-line basis over the lease term. If the expenses the lessee recognizes for these intragovernmental leases is different than what GSA has for revenue, this will potentially cause issues with intragovernmental eliminations, unless GSA is compensating or billing the lessee using the straight-line basis.

BOR: Agree. By not recording a lease asset, this resolves issues with eliminations and/or double recording of the asset at the department and government-wide level.

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

DO: Agree with the proposal.

IA: Needs clarification. Paragraph #86- Currently, we expense TI if GSA has built it into the total cost and bills on a monthly basis. We would capitalize and amortize only if an RSA exists exceeding our threshold. Is this paragraph consistent with that approach? For paragraph #87- is this an expansion of our FMLP note for Federal leases?

OSM: Agree-we will leave this up to FASAB to determine.

- 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.

PFM: Agree as this is a new requirement and not a correction of prior year errors.

BIO: I disagree. This makes no sense at all. The lease liability and lease asset should initially be measured based on the remaining lease term (this part makes sense because that is what is left in the liability) and associated lease payments as of the beginning of the period of implementation (this makes no sense to me). These amounts would not match and therefore, cause a difference in accounting.

BOEM/BSEE: Agree.

BOR: Agree.

DO: Agree with the proposal.

IA: Agree - treating this prospectively will avoid additional costs during implementation.

OSM: Agree - if there is new reporting standard then it should be applicable to all leases involved.

- 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.

PFM: Agree as agencies need time to implement the new requirement.

BIO: I agree. Agencies will need at least a year and a half, if not longer, to be able to implement these changes.

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BOEM/BSEE: Undecided, refer to response on Q10. Does GSA need to change their methodology for billing?

BOR: Agree.

DO: Agree with the proposal.

IA: Agree - treating this prospectively will avoid additional costs during implementation.

OSM: Agree- Giving reporting entities a year to implement is a good time frame.

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"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input checked="" type="checkbox"/>	If other, please specify: <input type="text" value="OCFO Director for Policy"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

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 specified 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.

We agree with the following comment: we recommend that the word "specified" be inserted before "period of time..." in the first sentence.

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

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***

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.

We recommend additional language to clarify the definition of the term “noncancelable” not just the length of the noncancelable period. We also recommend including in the additional clarifying language a requirement to define/outline where/how specific lease term provisions related to the funding/cancellation clauses and other additional provisions will be operational within the lease.

- 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.

We agree with the proposed lessee recognition of a lease at the beginning of the term as presented in paragraph 19.

- 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.

We agree with the proposed lessee measurement and recognition of the lease liability as presented in paragraphs 21 - 29 and paragraphs A20 - A21.

- 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.

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- 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**

We recommend this be revised to read, When the interest rate the lessor is charging is documented in the lease agreement that rate will be used as the discount rate. If the interest rate is not stated in the lease agreement, the lessee will use their incremental borrowing rate (i.e. the current Treasury borrowing rate for securities of the same maturity period as the term of the lease.)

- 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.**

We agree with the proposal 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.

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.**

We agree with the circumstances when the lessee must remeasure the lease liability as presented in paragraph 25, but only if the remeasurement is expected to significantly affect the amount of the lease liability. Thus, we recommend the Board include language linking remeasurement requirements to materiality thresholds.

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

We do not have sufficient information at this time to determine whether the requirements triggering remeasurement will cause undue costs.

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- 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.**

We agree 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, but only if the remeasurement is expected to significantly affect the carrying value of the leased asset. We again recommend including language linking the remeasurement requirement to materiality thresholds.

- 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.

We agree with the proposed leased asset measurement and recognition requirements as stated in paragraphs 30 – 34.

- 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.

We agree 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

- 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.

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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.

We believe the definition of a Short-Term lease in paragraphs 13 and 59 is inconsistent with the definition of lease term in paragraph 14. In paragraphs 13 and 59 the probability of exercising option periods is not considered while in paragraph 14 the term of the lease is effected by the preparer's determination of the probability that one or more option periods will be exercised. In accordance with paragraphs 13 and 59 a 12 month lease with two one year option periods would not be a short term lease, regardless of the probability of the options being exercised. However, paragraph 14 would permit preparers to treat that same lease as a short term lease if the preparer did not believe that it was probable that the second option period would be exercised. We believe the current wording may cause differing interpretations by preparers and auditors.

- 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.

We agree with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases as presented in paragraphs 75 - 95 and further explained in paragraphs A26 - A29

- 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.

We do not agree. We believe it would not be cost effective to recognize and measure all existing leases with remaining lease terms greater than 24 month at the time this proposed standard is implemented. We believe only leases with significant remaining probable lease terms and lease liabilities be recognized and measured. We believe the Board should consider a more limited scope for existing leases such as those with remaining lease terms of at least ten years and a remaining lease liability of \$500,000 or more. Also, we recommend that the Board provide more specific implementation guidance.

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- 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.

We agree with the proposed effective date as presented in paragraph 101.



January 6, 2017

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views, and the hard work and dedication by the Board Members and Staff on their contributions to improving federal financial reporting.

Our responses to the ED questions are included below.

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.

A1. The FISC agrees with the proposed definition of leases presented in the ED. We suggest that the Board consider adding an example of what is meant by "intangible assets," which is one of the 'non-financial asset' examples in footnote 3 on page 11 of the ED.

- 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.

- A2. The FISC agrees with the proposed guidance in the ED.

- 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.

- A3. The FISC agrees with the proposed lease recognition of a lease at the beginning of the lease term included in the ED.

- 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.

- A4. The FISC agrees with the proposed lessee measurement and lease liability recognition guidance included in the ED.

- 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.
 - 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.
- A5. The FISC generally agrees with the provisions of paragraph 23. Some FISC members expressed concerns that the calculation of the lessee's incremental borrowing rate may be complicated and require a considerable amount of time for the preparer community to apply the Treasury yield curve and support these estimates with a tool to model each of the agency's leases. In addition, there is no requirement in paragraph 23 for a preparer to determine the difference between the lessor's rate and the lessee's incremental borrowing rate. In instances in which a difference between the two rates results in a significant difference in the calculation of the future lease payments, it is not clear whether the agency should use the lesser of the two calculations, or if the Board's intention is that the lessor's borrowing rate is the most informative rate.
- 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.
 - B. Would the requirements triggering remeasurement cause undue costs? Please provide the rationale for your answer.
 - 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.
- A6. The FISC generally agrees with the remeasurement considerations in the ED. Some FISC members expressed concerns that the circumstances for remeasurement in paragraphs 25b through 25e are not as objectively determined as the lease reassessment, modification, or termination circumstance in paragraph 25a. Therefore, providing sufficient evidence to the auditors that the less objective circumstances have been considered and concluded on by the preparer at each subsequent financial reporting date may require undue costs by the preparer and auditor communities.
- 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.

- A7. The FISC agrees with the proposed lessee measurement and recognition of the lease asset guidance in the ED.
- 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.

- A8. The FISC agrees with the proposed lessor measurement and recognition of the lease receivable and deferred revenue guidance in the ED.
- 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.

- A9. The FISC agrees with the proposed definition and measurement and recognition of short-term leases in the ED.
- 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.

A10. The FISC generally agrees with the intragovernmental lease guidance in the ED. The FISC suggests that the phrase "right to use an asset" in paragraph 75 be replaced with "right to use a non-financial asset" in order to align with the lease definition in paragraph 9. The FISC also suggests that a footnote be added to the phrase "a contract or agreement" in paragraph 75 that informs a reader that "contracts or agreements within or between consolidation entities typically take the form of a Memorandum of Agreement (MOA), Memorandum of Understanding (MOU), and Military Interdepartmental Purchase Request (MIPR)." In addition, the FISC suggests that the Board consider requiring the number of leases by major leased asset category to paragraph 87.

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.

A11. The FISC agrees with the proposed prospective implementation approach in the ED.

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.

A12. The FISC agrees with the proposed effective date in the ED.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Andrew C. Lewis
FISC Chair

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		
Federal Entity (user)		
Federal Entity (preparer)	X	
Federal Entity (auditor)		
Federal Entity (other)		If other, please specify: _____
Association/Industry Organization		
Nonprofit organization/Foundation		
Other		If other, please specify: _____
Individual		

Please provide your name.

Name: Edward Gramp, Jared Leicht, April Pratt

Please identify your organization, if applicable.

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 5th 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.



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

JAN 10 2017

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Statement of Federal Financial Accounting Standards Exposure Draft, *Leases: An Amendment of SFFAS 5 and SFFAS 6*, dated September 26, 2016.

Please find the enclosed answers to the questions that were asked of respondents, and please further find updated (to include a comment to paragraph 25, item e.) additional Departmental comments to the Exposure Draft. If you have any questions, please contact me at (202) 482-0646 or bhenshel@doc.gov.

Sincerely,

A handwritten signature in black ink, which appears to read "B. Henshel", is positioned above the printed name.

Bruce Henshel
Accountant, Office of Financial Management

Enclosure

cc: Gordon T. Alston
Julie Tao
Eric Carter

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"/>	
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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"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
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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.

The Department agrees with the proposed definition of a lease presented in paragraph 9 and further explained in paragraph A15. The definition appears to be broad enough to address the various lease options into which the Federal government enters.

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***

- 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.

The Department agrees with the proposed guidance on determining the lease term as presented in paragraphs 14-18. The Department agrees that the lease term should be considered the period that the lessee has a noncancelable right to use an underlying asset in addition to each option period that it is “probable” that the lessee will exercise the option to extend the lease.

The Department recommends that FASAB consider the below situation (if not already considered by FASAB) for inclusion as an additional situation that causes a remeasurement of the lease term, and include a discussion of FASAB’s consideration of this situation in Appendix A: Basis for Conclusions if this situation is not included in the situations that cause a remeasurement of the lease term. If the below situation was already considered by FASAB; we recommend that FASAB include a discussion of FASAB’s previous consideration in Appendix A: Basis for Conclusions.

- An assessment of all relevant factors indicates that the likelihood of an option being exercised has changed from probable to not probable, or vice versa.

- 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.

The Department agrees with the proposed lessee recognition of a lease at the beginning of the lease term, because the Department believes that the recognition of events as events occur is consistent with accrual accounting for proprietary transactions.

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

- 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.

The Department agrees with the proposed lessee measurement and recognition of the lease liability as presented in paragraphs 21 - 29 and further explained in paragraphs A20 – A21.

The Department recommends that the proposed standard specifically address the exclusion from the lease liability of the portion of the present value of the rental and other minimum lease payments during the lease term that represents executory costs to be paid by the lessor. Paragraph 44 of SFFAS 5 specifically addresses such executory costs, and the Department recommends continuing to specifically address the treatment of such executory costs in this proposed standard.

- 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.**

The Department at this time strongly disagrees that the rate that 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. Obtaining this rate from the lessor, or reasonably estimating this rate, assumed to be an implicit rate for purposes of the Department's response as the primary requirement (if able to be met) we believe is a significant requirement change from paragraph 45 of SFFAS 45, which states:

"The discount rate to be used in determining the present value of the minimum lease payments ordinarily would be the lessee's incremental borrowing rate unless (1) it is practicable for the lessee to learn the implicit rate computed by the lessor and (2) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both these conditions are met, the lessee shall use the implicit rate."

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The Department believes that ED paragraph 23 may be a significant additional cost and level of effort for federal entities to carry out, that ED paragraph 23 makes the proposed standard more complex to carry out, while the ED has not included any discussion in Appendix A: Basis for Conclusions for why the change in practice from paragraph 45 of SFFAS 5 is proposed:

- There is no discussion included in the ED Appendix A: Basis for Conclusions explaining why the lessor rate (obtained from the lessor or reasonably estimated by the lessee) is considered preferable to Treasury's incremental borrowing rate, and there is no discussion included in the ED of FASAB weighing the additional efforts, of both the lessor and the lessee, involved with the lessee obtaining from the lessor or reasonably estimating the lessor's rate versus the benefits of utilizing the obtained or estimated lessor rate.
- The lessor may not be willing to provide the lessor rate, for example, the rate may be considered by the lessor to be proprietary or sensitive information that it does not wish to or will not provide to the lessee. The lessee under paragraph 23 would be required to **attempt to** "reasonably estimate" the lessor rate if the lessor rate cannot be obtained from the lessor, prior to utilizing the lessee's incremental borrowing rate.
- FASAB has not included any guidance in the proposed standard on how a federal entity would reasonably estimate the lessor rate if not known to the lessee or provided by the lessor.

It appears to the Department that the lessee's incremental borrowing rate may generally provide an easier and more consistent method for obtaining a discount rate, and would eliminate the additional efforts of both the lessee and the lessor in pursuing the lessor rate, thus reducing the costs of implementing this proposed standard.

The Department respectfully requests, that, if paragraph 23 is retained as currently proposed, that FASAB include, in Appendix A: Basis for Conclusions, a discussion of the basis for the change in practice from paragraph 45 of SFFAS 5.

- 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.**

The Department agrees, as currently proposed, 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, however, see the Department's response to Question 5a. regarding a significant disagreement with the proposed standard as currently written.

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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.**

The Department agrees with the circumstances when the lessee must remeasure the lease liability as presented in paragraph 25. The Department recommends that a lessee's lease liability should not be remeasured solely because of a change in the lessor's interest rate. This recommendation is consistent with paragraph 28, which provides that a lease liability is not required to be remeasured solely for a change in the lessee's incremental borrowing rate.

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

The Department believes that the burden associated with remeasurement of a lease liability will vary based on the circumstances surrounding the lease; however, the Department supports the proposed remeasurements treatment.

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.

The Department agrees 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, because the asset valuation is tied to the liability valuation. Also, if a change **would** reduce the carrying valuation of the asset **below zero**, it is appropriate to record a gain as a result of the reduction in valuation below zero.

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- 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.

The Department agrees with the proposed lessee measurement and recognition of the lease asset as presented in paragraphs 30 - 34 and further explained in paragraph A22, because the measurement and recognition methods proposed appears to be consistent with existing Property, Plant, and Equipment guidance.

- 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.

The Department agrees 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, primarily because the Department believes that recognition of events as events occur appears to be consistent with accrual accounting for proprietary transactions.

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

- 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.

The Department agrees 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.

- 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.

The Department agrees with the proposed definition, measurement, recognition, and disclosures of intragovernmental leases as presented in paragraphs 75 - 95 and further explained in paragraphs A26 - A29. The proposed guidance aligns with OMB A-11 for intragovernmental agreements and requires minimal disclosures as compared to non-intragovernmental leases.

- 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.

The Department agrees with the proposed prospective implementation approach as presented in paragraphs 99 – 100. The Department believes that this approach will allow for implementation of the requirements on a forward-looking basis, without the complications of retroactive changes.

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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.

The Department agrees with the proposed effective date as presented in paragraph 101, because the Department believes that the expected issuance date of this proposed standard should allow sufficient time for most federal entities to implement the proposed standard timely.

Additional Department of Commerce Comments.

Paragraph 25 (under Lease Liability), item e.:

Paragraph 28 (also under Lease Liability) states the following:

“28. “A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed solely for a change in the lessee’s incremental borrowing rate.”

In contrast with Paragraph 28, paragraph 25 introductory clause, and item e. state the following:

“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:”

“e. There is a change in the interest rate the lessor charges the lessee, if used as the initial **discount rate**.”

It is not understood by the Department, as to why there is not **similarly, also**, an exclusion of the requirement for remeasurement of the lease liability if there is **solely** a change in the lessor’s discount rate (if used as the initial discount rate)—in other words, if only item 25.e. is applicable, and there is no applicability for items 25.a. through 25.d.

The Department respectfully requests that FASAB consider or reconsider the above noted issue, and include a discussion of FASAB’s consideration of this issue in Appendix A: Basis for Conclusions.

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Paragraph 35 (Disclosure Requirements for Lessees), item c.:

The Department believes the below paragraph 35c proposed disclosure requirement is not necessary for a fair and useful presentation of a federal entity's leasing activity as a lessee that should be required by generally accepted accounting principles, and may be costly and burdensome for federal entities to carry out, while it appears to the Department that the proposed disclosure requirement does not provide a significant benefit to users of the financial statements/notes to the financial statements. The Department, accordingly, respectfully recommends that FASAB reconsider the below proposed disclosure requirement:

- "c. The amount of lease expense recognized for the period for variable lease payments not previously included in the lease liability"

Further Elaboration on Request for Consideration of Deletion of Proposed Requirement: Proprietary-based disclosure requirements are generally based on a Balance Sheet approach (i.e. support the Balance Sheet), and there is not a recorded liability for these variable lease payments. There are many, many significant expenses a federal entity incurs that are not disclosed in the notes to the financial statements, since the proprietary-based disclosure requirements generally take a Balance Sheet approach. The Department believes the lessee disclosures should primarily be focused on the lease liability.

Paragraph 35, item d.:

The Department believes that the proposed disclosure requirement for principal and interest requirements to maturity beyond the five subsequent years of ***"and in five-year increments thereafter"*** as currently proposed is not necessary for a fair and useful presentation of a federal entity's leasing activity as a lessee that should be required by generally accepted accounting principles, and may be costly and burdensome for federal entities to carry out, while it appears to the Department that the proposed disclosure requirement does not provide a significant benefit to users of the financial statements/notes to the financial statements. The Department respectfully requests that FASAB consider a revised disclosure requirement of ***"Thereafter"*** (deleting the five-year increments requirement).

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Paragraph 35, item e.:

The Department believes the following proposed disclosure requirement is not necessary for a fair and useful presentation of a federal entity's leasing activity as a lessee that should be required by generally accepted accounting principles, and may be costly and burdensome for federal entities to carry out, while it appears to the Department that the proposed disclosure requirement does not provide a significant benefit to users of the financial statements/notes to the financial statements. The Department, accordingly, respectfully recommends that FASAB reconsider the below proposed disclosure requirement:

- "e. The amount of the annual lease expense and the discount rate used to calculate the lease liability"

Further Elaboration on Request for Consideration of Deletion of Proposed Requirement: Proprietary-based disclosure requirements are generally based on a Balance Sheet approach (i.e. support the Balance Sheet), and there are adequate proposed disclosures for the lease liability. There are many, many significant expenses a federal entity incurs that are not disclosed in the notes to the financial statements, since the proprietary-based disclosure requirements generally take a Balance Sheet approach. The Department believes the lessee disclosures should primarily be focused on the lease liability. With regard to the proposed disclosure of the discount rate used to calculate the lease liability, the Department believes that is too detailed information for disclosure that does not significantly benefit the user of the financial statements/notes to the financial statements.

Paragraph 49 (included under Disclosure Requirements for Lessors), item b.:

The Department does not understand what significant benefits there would be to the users of the financial statements/notes to the financial statements of the following proposed disclosure requirement:

- "b. The carrying amount of assets on lease or held for leasing, by major classes of assets, and the amount of accumulated depreciation"

It appears to the Department that the proposed disclosure requirement may not be necessary for a fair and useful presentation of a federal entity's leasing activity as a lessor that should be required by generally accepted accounting principles and may be costly and burdensome for federal entities to carry out, while it appears to the Department that the proposed disclosure requirement does not provide a significant benefit to users of the financial statements/notes to the financial statements. The Department, accordingly, respectfully recommends that FASAB reconsider the above noted proposed disclosure requirement:

Further Elaboration on Request for Consideration of Deletion of Proposed Requirement: Proprietary-based disclosure requirements are generally based on a Balance Sheet approach, and the Department believes that the lessor disclosure requirements should focus on the lease receivable. It appears to the Department that the proposed disclosure requirement with regard to the related assets are not of significant benefit to users of the financial statements/notes to the financial statements and may be costly and burdensome for federal entities to carry out.

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The Department also is further concerned about the disclosure for assets "held for leasing" which do not relate to the recorded leases receivable. This disclosure of related assets "held for leasing" appears to the Department to be of ancillary information not directly related to the recorded leases receivable; and, again, appears to the Department to be of information not necessary for a fair and useful presentation of a federal entity's leasing activity as a lessor that should be required by generally accepted accounting principles and may be costly and burdensome for federal entities to carry out, while it appears to the Department that the proposed disclosure requirement does not provide a significant benefit to users of the financial statements/notes to the financial statements.

Paragraph 49, item c. and item d.:

The Department believes the following proposed disclosure requirements are not necessary for a fair and useful presentation of a federal entity's leasing activity as a lessor that should be required by generally accepted accounting principles, and may be costly and burdensome for federal entities to carry out, while it appears to the Department that the proposed disclosure requirement does not provide a significant benefit to users of the financial statements/notes to the financial statements. The Department, accordingly, respectfully recommends that FASAB reconsider the below proposed disclosure requirements:

"c. The total amount of revenue (for example, lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases"

and

"d. The amount of revenue recognized in the reporting period for variable lease payments and other payments not previously included in the lease receivable, including revenue related to residual value guarantees and termination penalties."

Further Elaboration on Request for Consideration of Deletion of Proposed Requirements: Proprietary-based disclosure requirements are generally based on a Balance Sheet approach (i.e. support the Balance Sheet), and there are adequate proposed disclosures for the lease receivable. There are many, many significant revenues a federal entity recognizes that are not disclosed in the notes to the financial statements, since the proprietary-based disclosure requirements generally take a Balance Sheet approach. The Department believes the lessor disclosures should primarily be focused on the leases receivables.

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Paragraph 50 (included under Disclosure Requirements for Lessors):

The Department believes that the proposed disclosure requirement, when applicable, for future lease payments that are included in the lease receivable beyond the five subsequent years of ***“and in five-year increments thereafter”*** as currently proposed is not necessary for a fair and useful presentation of a federal entity’s leasing activity as a lessor that should be required by generally accepted accounting principles, and may be costly and burdensome for federal entities to carry out, while it appears to the Department that the proposed disclosure requirement does not provide a significant benefit to users of the financial statements/notes to the financial statements. The Department respectfully requests that FASAB consider a revised disclosure requirement of ***“Thereafter”*** (deleting the five-year increments requirement).

Paragraphs 79 through 86 (under Intragovernmental Leases – Lessee Accounting section):

The definitions included in paragraphs 79 through 86, under the Guidance for Recognition of Specific Intragovernmental Lease Topics subsection, appear to the Department to be guidance/definitions that is applicable to the entire proposed standard. The Department therefore recommends that these definitions be moved to the Definitions section for the entire proposed standard (currently paragraphs 9 through 13).



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January 17, 2017

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

RE: Proposed Statement of Federal Financial Accounting Standards, *Leases*

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Statement of Federal Financial Accounting Standards, *Leases: An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment* – the exposure draft (ED). We commend the Board for devoting resources to develop a comprehensive lease accounting standard, and we support the simplified accounting for intragovernmental leases. We encourage the Board to collaborate with the Office of Management and Budget on the budgetary accounting guidance to minimize confusion about the differences in concepts and terminology between the proprietary and budgetary accounting guidance.

We believe there are certain aspects of the ED that are unclear, which will make implementation problematic, and in some instances will impact the auditability. Therefore, we provide the following comments for the Board's consideration.

1. Non-Intragovernmental and Intragovernmental Leases Sections

The clarity of the standard would be improved if the non-intragovernmental leases section and intragovernmental leases section were individually comprehensive and consistently worded, where possible. We noted the following inconsistencies.

- a) Paragraphs 14 through 18 in the standards for non-intragovernmental leases provide the basis for determining the lease term. Because lease term is a fundamental concept which we believe is equally relevant to intragovernmental leases, we recommend that these paragraphs be moved to a general section outside of the non-intragovernmental and intragovernmental leases sections. Because the determination of the lease term is critical to consistent adoption of the standard, we believe paragraphs 14 through 18 warrant a flowchart.
- b) The non-intragovernmental leases section provides the accounting treatment for the following scenarios, which we believe are equally relevant to intragovernmental leases. Therefore, we recommend that the accounting also be included in the intragovernmental leases section:
 - Contracts/agreements with multiple components (paragraphs 51 through 56)
 - Contract/agreement combinations (paragraphs 57 and 58)

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- Subleases (paragraphs 68 and 69)
- c) The intragovernmental leases section provides the accounting treatment for the following scenarios, which we believe are equally relevant to non-intragovernmental leases. Therefore, we recommend that the accounting also be included in the non-intragovernmental leases section:
 - Lease concessions (paragraphs 84 and 91)
 - Leasehold improvements (paragraph 86)
 - Initial direct costs (paragraph 94)

2. Scope

- a) Paragraph 6 uses the phrase “in an *exchange* transaction [emphasis added].” The significance of “in an exchange transaction” is unclear. We recommend that the Board delete the phrase or modify the paragraph to provide additional guidance about what is meant by the phrase.
- b) Footnote 3 states “Examples of nonfinancial assets include land, buildings, vehicles, equipment, internal use software. . .” We recommend that the Board specifically state in the scope section that the standard applies to leases of internal use software as defined in SFFAS 10, *Accounting for Internal Use Software*.

3. Definitions

- a) The following terms are defined outside of the definitions section. We recommend that the Board define them in the definitions section.
 - a. Fiscal funding or cancellation clause (paragraph 16c)
 - b. Short-term lease (paragraph 59)
 - c. Lease concessions (paragraphs 84 and 91)
 - d. Leasehold improvements (paragraph 86)
- d) The following terms are discussed, often with examples, throughout the standard. We recommend that the Board define these terms in the definitions section:
 - a. Nonfinancial asset (footnote 3)
 - b. Residual value guarantee (paragraph 21d)
 - c. Lease modification (paragraphs 66 and 67)
 - d. Lease incentives (paragraphs 82 and 90)
- e) Paragraph 9 -- Refer to our earlier comment number 2b on paragraph 6.

Standards for Non-Intragovernmental Leases

While we recognize that the Board leveraged the Governmental Accounting Standards Board’s Exposure Draft, *Leases*, in drafting the standards for non-intragovernmental leases, certain changes would enhance the understanding and usability of the standard.

4. Lease Term

- a) Paragraphs 14 to 18 – Refer to our earlier comment number 1a.

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- b) As we stated in our earlier comment number 1a, the lease term is a fundamental concept in this standard. We believe that there are gaps in paragraphs 14 through 18 which prevent the standard from providing a comprehensive and precise definition of lease term. For example, what is the noncancelable period if it is not probable that the lessee will exercise the option to terminate the lease? We recommend the Board refer to the Financial Accounting Standards Board's Accounting Standards Codification (ASC) 842-10-20 for an example of a more precise definition of lease term.
- c) Paragraph 15a uses the phrase "renewal options for additional periods." Paragraph 11 defines "lease option periods". We recommend that the Board replace "renewal options for additional periods" with "lease option periods".
- d) Paragraph 16d states: "Month-to-month lease holdovers...should be considered cancelable because either the lessee or lessor could cancel the lease at any time." In our experience, the lessor generally doesn't have the option to cancel the lease, only the lessee has such option.
- e) Paragraph 16d states: "These holdover periods should be excluded from the lessee's lease liability and the lessor's lease receivable." This paragraph is included within the "Lease Term" section of the ED. We recommend that the Board either move paragraph 16d to the section on recognition and measurement or revise this language to indicate that the holdover periods should be excluded from the *lease term*.
- f) Paragraph 17 states: "At the beginning of a lease..." and paragraph 19 states "At the beginning of the lease term..." It is unclear what difference, if any, exists between the two phrases. Also, it is unclear when the Board intends for lease accounting to begin. The beginning of a lease could be the date upon which a lessee signs a lease, begins occupancy or takes delivery of the underlying asset, or another date. We recommend that the Board use consistent wording between paragraphs 17 and 19 and provide guidance on when a lease begins.
- g) Paragraph 17c lists the "lessee's history of exercising renewal or termination options" among the factors to consider. It is unclear whether the Board intends this consideration to be the history of exercising options in all leases or to be limited to the history of exercising options in leases for the same type of underlying asset. We recommend that the Board provide clarification.
- h) Paragraph 17d states "extent to which the lease asset is considered mission critical." We believe that the Board should replace "lease asset" with "underlying asset".

4. Recognition and Measurement for Lessee--Lease Liability

- a) Paragraph 21g states "Any other payments that are probable of being required based on an assessment of all relevant factors." It is unclear what these other payments would be. We recommend that the Board include examples of these payments.
- b) Paragraph 25 states "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* [emphasis added] the amount of the lease liability." It is unclear how a lessee would determine whether or not a change is expected to affect, or significantly affect, the lease liability without actually performing the remeasurement. This could result in an assessment or remeasurement every reporting period. We believe the cost would outweigh the expected benefits to financial statement users.

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The term “significantly” in paragraph 25 is not defined. It is unclear whether the consideration of significance is for an individual year or the cumulative change to the lease liability. This will result in inconsistent application. We recommend that the Board provide clarification.

- c) Paragraph 25b uses the phrase “being paid” whereas paragraph 21d uses the phrase “being required to be paid”. We recommend that the Board conform the phrases.
- d) Paragraph 26 -- Refer to our earlier comment number 4b on paragraph 25.
- e) Paragraph 27 -- Refer to our earlier comment number 4b on paragraph 25.
- f) The interaction between paragraphs 25 and 27 is confusing. We recommend that the Board revise paragraph 27 to clarify its intent or revise paragraph 27 to read as follows:

“If a lease liability is remeasured for the changes in paragraph 25a or 25c, the lessee should also update the discount rate as part of the remeasurement.”

5. Lease Asset

- a) Paragraph 30c states “Initial direct costs that are ancillary charges necessary to place the lease asset in service.” However, paragraph 12 defines initial direct costs as “costs that are directly attributable to negotiating and arranging a lease or portfolio of leases”. We recommend that the Board address the discrepancy.
- b) We believe the first two sentences of paragraph 34 are circular. We recommend that the Board replace the first sentence with the following:

“The lease assets classified as property, plant and equipment are subject to SFFAS 44, *Accounting for Impairment of General Property, Plant, And Equipment Remaining In Use.*”

In addition, we recommend that the Board delete the third sentence because SFFAS 44 provides a list of factors to consider in determining impairment.

6. Disclosure Requirements for Lessees

- a) Paragraph 35 lists required disclosures. We recommend that the Board add disclosure of renewal and termination options and the existence of subleases. We do not believe that these are captured within the requirement for a “general description of its leasing arrangements” included in paragraph 35a.
- b) Paragraph 35a(i) states “the basis, terms and conditions on which variable lease payments not included in the lease liability are determined.” It is unclear what is meant by “variable lease payments not included in the lease liability.” We recommend that the Board include examples.
- c) Paragraph 35c states “The amount of lease expense recognized for the period for variable lease payments not previously included in the lease liability.” It is unclear what is meant by “variable lease payments not previously included in the lease liability.” We recommend that the Board include examples, similar to those included in paragraph 49d.

7. Recognition and Measurement for Lessors -- Lease Receivable

- a) Paragraph 42 discusses the concept of “producing a constant periodic rate.” We believe this concept is also applicable to paragraph 24. We recommend that the Board include the concept in paragraph 24.

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- b) Paragraphs 43 and 44 - Refer to our earlier comments numbers 4b and 4d on paragraphs 25 through 27.
- c) Paragraph 43a refers to a “change in the lease term” whereas paragraph 25a refers to a “change in the lease term due to a reassessment (see par. 18), a modification (see par. 66), or a termination (see par. 64).” We believe the Board should use consistent terminology.

8. Disclosures for Lessors

- a) Paragraph 49a -- Refer to our earlier comment number 6b on paragraph 35a.
- b) Paragraph 49b uses the phrase “assets on lease or held for leasing” whereas “underlying assets” is used elsewhere in the standard. We believe the Board should use consistent terminology.

9. Contract/Agreements with Multiple Components

- a) Paragraph 53 uses the phrase “if the assets have difference lease terms.” We believe that it is unclear whether the Board’s use of “lease terms” is intended to mean lease terms as defined in paragraph 14 or a generic phrase for other provisions included in a lease contract.
- b) Paragraph 55b uses the phrase “a single lease unit”. We recommend that the Board either include a definition in the definition section or modify paragraph 55b to provide additional guidance about what is meant by the phrase.
- c) Paragraph 55c -- Refer to our earlier comment number 9b on paragraph 55b.
- d) Paragraph 56 -- Refer to our earlier comment number 9b on paragraph 55b.

Standards for Intragovernmental Leases

10. Intragovernmental Leases – Lessee Accounting

- a) Paragraph 77 states: “A lessee should recognize lease payments...based *primarily* [emphasis added] on the payment provisions of the lease.” Paragraph 78 states: “Recognition should be based on the payment provisions of the lease.” It is unclear what, if any, differences are intended between the two paragraphs. We recommend that the Board either remove the word “primarily” from paragraph 77 or provide examples of other items to consider in addition to the provisions of the lease.
- b) Paragraph 80 uses the phrase “contingent rental increases.” Paragraph 21b uses the phrase “variable lease payments”. It is unclear what, if any, differences are intended between the two phrases. We recommend that the Board either conform the wording or provide clarification.
- c) Paragraphs 83 and 85 -- Refer to our earlier comment number 1a on the phrase “lease term”
- d) Paragraph 86 -- Refer to our earlier comment number 4e on paragraphs 17 and 19.
- e) Paragraph 86 uses the phrase “expected lease term.” We recommend that the Board modify paragraph 86 to provide additional guidance about what is meant by the phrase.
- f) We recommend that the Board combine and revise the disclosure requirements in paragraphs 87a and 87c to read as follows: “annual lease expense by major category of leased asset and in the aggregate.”
- g) Paragraph 87b states “general lease terms with specific intragovernmental requirements.” We recommend that the Board modify paragraph 87b to provide additional guidance about what is meant by the phrase “specific intragovernmental requirements.”

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11. Intragovernmental Lease Arrangements – Lessor Accounting

- a) Paragraphs 90 and 92 -- Refer to our earlier comment number 1a on the phrase “lease term.”
- b) Paragraph 95a states “Future lease rental income as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years for lease arrangements over the lease term.” Rental income is an accrual concept. We recommend that the Board revise this paragraph as follows: “Future lease payments that are to be received for each of the five succeeding fiscal years and in total over the lease term.”
- c) Paragraph 95b uses the terms “federally-owned” and “privately-owned.” We recommend that the Board avoid introducing new terms, and use consistent terminology, such as intragovernmental and non-intragovernmental.

12. Appendix B: Illustration

- a) The terminology used in paragraph 55 is different than the terminology used in Appendix B. We recommend that the Board conform the terminology used in Appendix B to match paragraph 55.

13. Editorial Matters

- a) Paragraph 9 defines a lease as “a contract or agreement...” However, paragraphs 20, 32, and others use the phrase “a lease contract/agreement”. We recommend that the Board revise paragraphs 20, 32, and others to use the term “a lease”.
- b) “Guidance” is used in several subheadings in the Intragovernmental section. “Guidance” is not included in the similar subheadings in the non-intragovernmental leases section. We recommend that the Board eliminate “guidance” as the standards *prescribe* rather than *provide guidance on* the accounting treatment and related disclosures.
- c) The following titles are used in the standard: 1) “DISCLOSURE REQUIREMENTS FOR LESSERS”, 2) “DISCLOSURES FOR LESSORS”, and 3) “Disclosures”. We recommend that the Board match the titles of its sub-sections and subtopics within and between the intragovernmental leases and the non-intragovernmental leases sections to improve the cohesiveness of the overall standard.
- d) We recommend that the Board add “category” at the end of footnote 7 as follows: “...the underlying asset *category*.” (added text italicized)
- e) We recommend that the Board reverse the order of paragraphs 28 and 29 to provide a more logical flow.
- f) We believe paragraphs 21c and 38c, and similarly paragraphs 22 and 39, are intended to provide the same guidance. We recommend that the Board use the same language in these paragraphs.
- g) Paragraph 35d uses the singular “the discount rate.” We believe this should be revised to “the discount rates”.
- h) We believe paragraphs 76 and 88 are unnecessary. We recommend that the Board delete them.
- i) We recommend that the Board revise paragraph 87b to read as follows: “general lease requirements *including with* specific intragovernmental requirements...” (added text italicized; deleted text struck-out)

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KPMG LLP

Accounting Firm

Ms. Wendy M. Payne
FASAB Executive Director
January 17, 2017
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If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or aenelson@kpmg.com.

Sincerely,

KPMG LLP
KPMG LLP



January 18, 2017

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

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its September 26, 2016 exposure draft entitled *Leases: An amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*. The FMSB is comprised of 22 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the exposure draft and overall supports the adoption of this standard by the FASAB and have answered the questions requested by FASAB.

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.

We agree with the proposed definition.

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.

We agree that it's a reasonable approach since FASAB has frequently used the term "probable," and is employing its own definition of "probable". However, it should be noted as a result of this definition a state or local government, private or not-for-profit entity will have accounting information that is asymmetrical to the FASAB's definition of "probable". (We understand the GASB may conclude on a "reasonably certain" threshold).

- 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.

We agree.

- 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.

We agree that present value is the best approach determining the value of the asset and liability. It is a systematic and rational way to determine the value of a series of payments over a long-term, resulting in the retirement of a liability at an incremental borrowing rate.

- 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.**

We agree the implicit rate is a cost to the lessee and should be presented accordingly. (See item b herein).

- 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.**

While we agree that the "Treasury borrowing rate for securities of similar maturity to the term of the lease," we are not sure what FASAB was trying to communicate when stating "unless the entity has its own borrowing authority" and would ask FASAB to provide clarification on how that statement would affect the lease process, as it is not discussed in the Basis for Conclusions.

- 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.**

We agree with the re-measurement for the reasons the FASAB states in paragraph 25. However, paragraph A19 does not provide a rationale for re-measuring the asset. There is a basis in FASAB concepts for re-measurement as stated in SFFAC 7 the FASAB identified the "advantages and disadvantages of reporting initial amounts and *remeasured amounts* and of applying different measurement attributes," but *did not draw any conclusions* "as to which measurement approach or attribute" may be preferable either in general or in particular circumstances. Such conclusions are the *province of the standard-setting process*, in the course of which the concepts in this Statement will be considered on a project-by-project basis, along with cost-benefit considerations and other practical reporting concerns that may arise under different alternatives." [par. 22, emphasis added]

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

While we believe that remeasurement can cause additional costs it is hard to ascertain the magnitude of the costs since each entity's leases are unique and depend on the type and the number of leases. We highly encourage FASAB to keep the remeasurements requirements to the minimum, focusing on those items that would have the material effect on the lease amount.

- 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.**

We agree with the re-measurements on the carrying value but recommend FASAB provide additional explanations in Paragraph A19 regarding what was considered in determining the list in A19.

- 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.

We agree the right to use the asset meets the FASAB asset definition. The obligation to make the lease payments meets the FASAB definition of a liability. We also agree with paragraph A22 that: "PP&E assets generally are measured at historical cost, which is the amount paid for those assets. Therefore, measuring the lease asset based on the lease liability is consistent with historical cost accounting applicable to PP&E."

- 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.

We agree.

- 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.

We agree that aligning the lease short-term exception with the PP&E standard (asset – 24 months or more) is logical and practical. The reporting will reduce implementation costs in the first year.

- 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.

We agree but believe FASAB doesn't provide a strong enough basis for the conclusion other than pragmatism and cost containment. Based on a GSA presentation, "the Board agreed that intragovernmental leases should be accounted for differently than leases between federal entities and non-federal entities. The Board agreed that a simplified approach for recognizing intragovernmental leases would be pragmatic and cost efficient." While we are in favor of cost savings, we believe more rationale is needed.

- 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.

We agree the prospective implementation approach is the most efficient and cost effect when implementing the proposed standard.

- 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.

With various proposed exposure drafts and new standards issued we highly encourage FASAB to review the timing of all the new standards and if needed to extend the implementation date of this proposed standard.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, CGFM, FMSB Chair, at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,



Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

Association of Government Accountants
Financial Management Standards Board

July 2016 – June 2017

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Federal Accounting Standards Advisory Board

LEASES:

AN AMENDMENT OF STATEMENT OF FEDERAL FINANCIAL ACCOUNTING STANDARDS
(SFFAS) 5, ACCOUNTING FOR LIABILITIES OF THE FEDERAL GOVERNMENT AND
SFFAS 6, ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by January 6, 2017

September 26, 2016

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- ["Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
- ["Mission Statement: Federal Accounting Standards Advisory Board"](#), [exposure drafts](#), [Statements of Federal Financial Accounting Standards and Concepts](#), [FASAB newsletters](#), and other items of interest are posted on FASAB's website at: www.fasab.gov .

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Contact us:

Federal Accounting Standards Advisory Board
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Mailstop 6H19
Washington, DC 20548
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Federal Accounting Standards Advisory Board

September 26, 2016

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*, are requested. Specific questions for your consideration appear on page 6 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by January 6, 2017.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

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

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

D. Scott Showalter
Chairman

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing revisions to the existing federal lease accounting standards. The proposal would provide a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports and include appropriate disclosures.

The Board is proposing that federal lessees recognize a lease liability and a leased asset at the beginning of the lease, unless it is an intragovernmental lease or a short-term lease. A federal lessor would recognize a lease receivable and deferred revenue, unless it is an intragovernmental lease or a short-term lease.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

The Board first addressed lease accounting during the development of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of The Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*. At that time, the Board decided to use the high-level language on lease accounting from Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) 13, *Accounting for Leases*. The Board chose to use this language as a placeholder until it was prepared to add lease accounting to its agenda as a separate project. Consequently the standards in SFFAS 5 and SFFAS 6 are minimal and only address the definition of a capital lease, the criteria for capital leases, and the measurement of a capital lease asset and liability.

The current lease accounting standards have been criticized for not making meaningful distinctions between types of leases and not providing sufficient guidance to the federal community. Additionally, the current federal standards are based on FASB's lease accounting standards which have since been revised.

This lease proposal would improve the existing lease accounting standards in SFFAS 5 and SFFAS 6 by

- providing relevant and meaningful financial information needed by federal financial statement users and
- providing comprehensive lease standards that appropriately address the various lease transactions/activities of the federal community.

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QUESTIONS FOR RESPONDENTS

The Board encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at www.fasab.gov/documents-for-comment/. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by **January 6, 2017**.

- 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.

- 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.

- 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.

- 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.

- 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**¹ (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.**
- 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.**

¹ A federal lessee's incremental borrowing rate would be the Department of the Treasury borrowing rate for securities of similar maturity to the term of the lease unless the entity has its own borrowing authority.

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

- 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.

- 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.

- 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.

INTRODUCTION

PURPOSE

1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) undertook this project primarily because
 - a. the current lease accounting 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*, have been criticized as ineffective because they do not make meaningful distinctions between capital and operating leases based on the substance of lease transactions, and
 - b. the lease accounting standards in SFFAS 5 and SFFAS 6 are based on lease accounting standards from Financial Accounting Standards Board (FASB) which have since been amended. In addition, existing FASAB standards are not comprehensive and do not provide meaningful information on federal leasing activities.
2. SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, defines both an asset and liability. In that concepts statement an asset is defined as “a resource that embodies economic benefits or services that the federal government controls.” A liability is defined as “a present obligation of the federal government to provide assets or service to another entity at a determinable date, when a specific event occurs, or on demand.” The SFFAC 5 definitions only address whether the asset or liability exists and not how it should be measured or whether or when it should be recognized. The current leasing activities/transactions of federal entities should be evaluated against these definitions to ensure proper measurement and recognition. This proposal seeks to adopt the most current concepts so that the accounting principles for leases provide comprehensive guidance for consistent reporting.
3. This Statement is intended to improve federal financial reporting for leases by requiring concise, meaningful, and transparent information about the cost and related asset and liability to improve users’ understanding of the operating performance of the federal government and component entities.

MATERIALITY

4. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

PROPOSED STANDARDS

SCOPE

5. This Statement applies to federal entities that present general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles, as defined by paragraphs 5 through 8 of 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*.
6. For purposes of applying this Statement, a **lease**² is defined as a contract or agreement that conveys the right to use a nonfinancial asset³ (the underlying asset) for a period of time in an exchange transaction. Leases include contracts or agreements that, although not explicitly identified as leases, meet the definition of a lease. This definition does not include contracts or agreements for services unless that contract or agreement also conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction.
7. This Statement amends the lease accounting standards in SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*. This Statement also establishes distinct standards for **intragovernmental leases**.
8. This Statement does not apply to leases of federal natural resources as defined in Technical Bulletin (TB) 2011-1, *Accounting for Federal Natural Resources Other than Oil* and leases of federal oil and gas resources as defined in SFFAS 38, *Accounting for Federal Oil and Gas Resources*.

DEFINITIONS

9. **Lease** – A lease is 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.
10. **Intragovernmental Lease** – An intragovernmental lease is a lease occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47, *Reporting Entity*.⁴
11. **Lease Option Periods** – Lease option periods are additional lease periods beyond the initial lease term. The options may be included in the initial lease or may be agreed to later in the lease term.

² Terms defined in the Glossary are shown in bold-face the first time they appear.

³ Examples of nonfinancial assets include land, buildings, vehicles, equipment, internal use software, and intangible assets. Examples of financial assets include cash, investments, and receivables.

⁴ See SFFAS 47, *Reporting Entity*, par. 38-42.

12. **Initial Direct Costs** – Initial direct costs are costs that are directly attributable to negotiating and arranging a lease or portfolio of leases and would not have been incurred without entering into the lease.
13. **Short-Term Lease** – A short-term lease is a lease that, at the beginning of the lease, has a maximum possible term under the contract or arrangement of 24 months or less, including any options to extend, regardless of their probability of being exercised.

STANDARDS FOR NON-INTRAGOVERNMENTAL LEASES

LEASE TERM

14. The lease term is 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.
15. The noncancelable period is the shorter of
- a. the initial lease period, before considering renewal options for additional periods;
 - b. the period of the lease preceding an option for the lessee to terminate the lease if it is probable, based on all relevant factors, that the lessee will exercise that option to terminate; or
 - c. the period of the lease preceding a point at which either the lessor only or both the lessee and the lessor have an option to terminate the lease, regardless of the probability of termination.⁵
16. In determining the lease term, the following specific provisions should be applied:
- a. When the noncancelable period is less than the initial lease term (due to options to terminate discussed in par. 15b and 15c) there should be no option periods added to the noncancelable period in calculating the lease term.
 - b. Provisions that allow for termination of a lease due to (a) purchase of the underlying asset, (b) payment of all sums due, or (c) default on payments are not considered options to terminate.
 - c. 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.

⁵ Periods for which either the lessor only or both the lessee and the lessor have an option to terminate the lease are cancelable periods and are excluded from the lease term.

- d. Month-to-month lease holdovers, also referred to as rolling lease extensions, or any lease that continues into a holdover period until a new contract or agreement is signed should be considered cancelable because either the lessee or lessor could cancel the lease at any time. These holdover periods should be excluded from the lessee's lease liability and the lessor's lease receivable.⁶
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:
- a. A significant economic incentive, such as contractual terms and conditions for the option periods that are favorable compared with current market rates
 - b. A significant economic disincentive, such as costs to terminate the lease and sign a new lease (for example, negotiation costs, relocation costs, abandonment of significant leasehold improvements, costs of identifying another suitable underlying asset, costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location, or a substantial cancellation penalty)
 - c. The lessee's history of exercising renewal or termination options
 - d. The extent to which the lease asset is considered mission critical to the federal entity
18. Lessors and lessees should reassess the lease term only if the lessee does either of the following:
- a. Elects to exercise an option even though the lessor or lessee had previously determined that it was not probable that the lessee would exercise that option
 - b. Does not elect to exercise an option even though the lessor or lessee had previously determined that it was probable that the lessee would exercise that option

RECOGNITION AND MEASUREMENT FOR LESSEES

19. At the beginning of the lease term, a lessee should recognize a lease liability and a property, plant, and equipment (PP&E)⁷ right-to-use lease asset (hereinafter referred to as the lease asset), except as provided in paragraph 20 and paragraphs 59-61 (short-term leases).

⁶ SFFAS 1, *Accounting for Selected Assets and Liabilities*, applies to any related accounts payable or accounts receivable amounts.

⁷ The lease asset should be classified as PP&E unless the underlying asset is not PP&E. In those instances, such assets should be classified with the underlying asset.

LEASES THAT TRANSFER OWNERSHIP

20. A lease contract/agreement that transfers ownership of the underlying asset to the lessee at or before the end of the lease, and does not contain termination options (see par. 14 - 15), should be reported as a purchase of that asset.⁸

LEASE LIABILITY

21. A lessee should measure the lease liability initially at the present value of payments to be made for the lease term. Measurement of the lease liability should include the following types of payments that might be required by a lease:
- a. Fixed payments, less any lease incentives (such as a cash payment or reimbursement of moving costs) receivable from the lessor
 - 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
 - c. Variable lease payments that are fixed in-substance as described in paragraph 22
 - d. Amounts that are probable of being required to be paid by the lessee under residual value guarantees
 - e. The exercise price of a purchase option if it is probable that the lessee will exercise that option
 - f. Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease or a fiscal funding or cancellation clause
 - g. Any other payments that are probable of being required based on an assessment of all relevant factors
22. Variable payments based on future performance of the lessee or usage of the underlying asset should not be included. Rather, these variable payments should be recognized as an expense in the statement of net cost in the period in which those payments are incurred. However, any component of these variable payments that is fixed in-substance should be included in the lease liability. An example is a lease payment based on a percentage of sales or usage but with a required minimum amount to be paid. That required minimum payment is fixed in-substance.
23. 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**⁹ (the estimated rate that would be charged for borrowing the lease payment amounts for the lease term) should be used.

⁸ See SFFAS 6, *Accounting for Property, Plant, and Equipment*, par. 26.

⁹ A federal lessee's incremental borrowing rate would be the Treasury borrowing rate for securities of similar maturity to the term of the lease unless the entity has its own borrowing authority.

24. At subsequent financial reporting dates, the lessee should calculate the amortization of the discount on the lease liability and recognize that amount as interest expense for the period. Any payments made should be allocated first to the accrued interest liability and then to the lease liability.
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.
27. The lessee also should update the discount rate as part of the remeasurement 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 purchase option being exercised has changed from probable to not probable, or vice versa.
28. A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed solely for a change in the lessee's incremental borrowing rate.
29. If the discount rate is required to be updated based on the provisions in paragraph 27, the discount rate should be based on the revised rate the lessor charges the lessee at the time the discount rate is updated. If that rate cannot be readily determined, the lessee's incremental borrowing rate should be used.

LEASE ASSET

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
- 31. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset, except as provided in paragraph 32. The amortization of the lease asset should be reported as amortization expense.
- 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.
- 33. The lease asset generally should be adjusted by the same amount when the corresponding lease liability is remeasured based on paragraphs 25–29. However, if this change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the flows statement as a gain.
- 34. The presence of impairment indicators (described in par. 12 of SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*) with respect to the underlying asset may result in a change in the manner or duration of use of the lease asset. The change in the manner or duration of use of the lease asset is an indicator that the lease asset may be impaired. The period for which the underlying asset has less usable capacity should be the relevant factor(s) in determining the magnitude of the decline in service utility of the lease asset. If a lease asset is impaired, it should be reduced first for any change in the corresponding lease liability. Any remaining amount should be recognized as an impairment.¹⁰

DISCLOSURE REQUIREMENTS FOR LESSEES

- 35. A lessee should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases:
 - a. A general description of its leasing arrangements, including:
 - i. the basis, terms, and conditions on which variable lease payments not included in the lease liability are determined
 - ii. the existence, terms, and conditions of residual value guarantees provided by the lessee

¹⁰ See SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, par. 18 – 25.

- b. The total amount of lease assets, and the related accumulated amortization, to be disclosed separately from other PP&E assets
- c. The amount of lease expense recognized for the period for variable lease payments not previously included in the lease liability
- d. Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent years and in five-year increments thereafter
- e. The amount of the annual lease expense and the discount rate used to calculate the lease liability

RECOGNITION AND MEASUREMENT FOR LESSORS

36. At the beginning of the lease term, a lessor should recognize a lease receivable and a deferred revenue, except as provided in paragraph 37 and paragraphs 59–61 (short-term leases). Any initial direct costs incurred by the lessor should be reported as an expense of the period.

LEASES THAT TRANSFER OWNERSHIP

37. A lease contract/agreement that transfers ownership of the underlying asset to the lessee at or before the end of the lease, and does not contain termination options (see par. 14) should be reported as a financed sale of that asset.

LEASE RECEIVABLE

38. A lessor should measure the lease receivable initially at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts. Measurement of the lease receivable should include the following types of payments that might be required by a lease:

- a. Fixed payments
- b. Variable 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
- c. Portions of variable payments that are fixed in substance (as described in par. 39)
- d. Residual value guarantees that are fixed payments in substance (as described in par. 40).

39. Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the receivable. Those payments should be recognized as revenue in the period to which those payments relate. However, any component of those variable payments that is fixed in substance should be included in the lease receivable. For example, if a lease payment is based on a percentage of sales but has a required minimum

payment, that required minimum is a fixed payment in substance. Similarly, a residual value guarantee is an in-substance fixed payment if it stipulates the underlying asset will be sold at the end of the lease term, with the lessee assuming a liability for any shortfall if the sales price is less than an agreed-upon minimum amount.

40. Amounts to be received under residual value guarantees (that are not fixed in substance) should be recognized as a receivable and revenue when (a) a guarantee payment is required (as agreed to by the lessee and lessor) and (b) the amount can be reasonably estimated. Amounts to be received for the exercise price of a purchase option or penalties for lease termination should be recognized as a receivable and revenue when those options are exercised.
41. The future lease payments to be received should be discounted using the rate the lessor charges the lessee, which may be the interest rate implicit in the lease. Lessors are not required to apply imputed interest but may do so as a means of determining the rate implicit in the lease.
42. At subsequent financial reporting dates, the lessor should calculate the amortization of the discount on the receivable and report that amount as interest revenue for the period. It should be calculated so as to produce a constant periodic rate of return on the receivable. Any payments received should be allocated first to the accrued interest receivable and then to the lease receivable.
43. The lessor should remeasure the lease receivable and update the discount rate at subsequent financial reporting dates if either of the following changes have occurred and are expected to significantly affect the amount of the receivable:
 - a. There is a change in the lease term.
 - b. There is a change in the rate the lessor charges the lessee.
44. If a lease receivable is remeasured for either of the changes in paragraph 43, the receivable 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 receivable. A lease receivable is not required to be remeasured solely for a change in an index or rate used to determine variable lease payments.
45. If the discount rate is updated based on the provisions in paragraph 43, the receivable should be discounted using the revised rate.

DEFERRED REVENUE

46. A lessor should measure the deferred revenue at the initial value of the lease receivable, less any provision for uncollectible amounts (see par. 38), plus the amount of any payments received at or prior to the beginning of the lease that relate to future periods (for example, the final month's rent). A lessor subsequently should recognize deferred revenue in a systematic and rational manner over the term of the lease.

47. The deferred revenue should generally be adjusted using the same amount as the change resulting from the remeasurement of the lease receivable as discussed in paragraphs 43-44.

UNDERLYING ASSET

48. A lessor should **not** derecognize the asset underlying the lease. A lessor should continue to apply other applicable guidance to the underlying asset, including depreciation and impairment. However, if the lease agreement requires the lessee to return the asset in its original or enhanced condition, a lessor should not depreciate the asset during the lease term.

DISCLOSURES FOR LESSORS

49. A lessor should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases:
- a. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable lease payments not included in the lease receivable are determined
 - b. The carrying amount of assets on lease or held for leasing, by major classes of assets, and the amount of accumulated depreciation
 - c. The total amount of revenue (for example, lease revenue, interest revenue, and any other lease-related revenue) recognized in the reporting period from leases
 - d. The amount of revenue recognized in the reporting period for variable lease payments and other payments not previously included in the lease receivable, including revenue related to residual value guarantees and termination penalties.
50. In addition to the disclosures in paragraph 49, if a federal entity's principal ongoing operations consist of leasing assets through the use of non-intragovernmental leases, the federal entity should disclose a schedule of future lease payments that are included in the lease receivable, showing principal and interest, for each of the five subsequent years and in five-year increments thereafter.

CONTRACT/AGREEMENTS WITH MULTIPLE COMPONENTS

51. Lessors and lessees may enter into one contract/agreement that contains multiple components, such as a contract/agreement that contains both a lease component and a nonlease component, or a lease that contains multiple underlying assets.
52. If a lessor or lessee enters into a contract/agreement that contains both a lease (such as the right to use a building) and a nonlease component (such as a maintenance services for the building), the federal entity should account for the lease and nonlease components as separate contract/agreements, unless the contract/agreement meets the exception in paragraph 55.b. or paragraph 55.c.

53. If a lease involves multiple underlying assets, lessors and lessees should account for each underlying asset as a separate lease component if the assets have different lease terms. The provisions of this paragraph should be applied unless the contract/agreement meets the exception in paragraph 55.b or paragraph 55.c
54. To allocate the consideration required under the contract/agreement to the different components, lessors and lessees should first use any prices for individual components that are included in the contract/agreement, if they are reasonable based on other observable stand-alone prices. Stand-alone prices are those that would be paid or received if the same or similar assets were leased or if the same or similar nonlease components (such as services) were contracted individually. Some contract/agreements provide discounts for bundling multiple leases or lease and nonlease components together in one contract/agreement. These discounts may be taken into account when determining whether individual component prices are reasonable. For example, if the individual component prices are each discounted by the same percentage from normal market prices, those component prices would be considered reasonable.
55. If a contract/agreement does not include prices for individual components, or if those prices are not reasonable based on other observable stand-alone prices, lessors and lessees should do the following, unless the components as a whole are insignificant:
- a. If observable stand-alone prices are readily available for *all* components, the federal entity should allocate the consideration based on the relative values of the observable stand-alone prices.
 - b. If observable stand-alone prices are readily available for *some* (but not all) components, the federal entity should allocate the observable stand-alone price to each component for which it is readily available. The federal entity may (1) estimate the allocation of the remaining consideration to the remaining components or (2) account for the remaining components as a single lease unit.
 - c. If observable stand-alone prices are not readily available for *any* of the components, the federal entity may (1) estimate the prices for each component or (2) account for the entire contract/agreement as a single lease unit.
56. When multiple components are accounted for as a single lease unit, as provided for in paragraphs 55.b. and 55.c., the accounting for that unit should be based on the primary lease component within that unit. For example, the primary lease component's lease term should be used for the unit if the lease components have different lease terms.

CONTRACT/AGREEMENT COMBINATIONS

57. Contract/agreements that are entered into at or near the same time with the same counterparty should be considered to be part of the same lease contract/agreement if either of the following criteria is met:
- a. The contract/agreements are negotiated as a package with a single objective.

- b. The amount of consideration to be paid in one contract/agreement depends on the price or performance of the other contract/agreement.

58. If multiple contract/agreements are determined to be part of the same lease contract/agreement, that lease should be evaluated in accordance with the guidance on contract/agreements with multiple components in paragraphs 51–56.

SHORT-TERM LEASES

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.

LESSEE TREATMENT OF SHORT-TERM LEASES

60. A lessee should recognize short-term lease payments as expense based on the payment provisions of the contract/agreement. The lessee should not apply the recognition and measurement requirements of paragraphs 19–35 but should recognize an asset if payments are made in advance of the period to which they relate, or a liability for rent due if payments are made subsequent to that period. The lessee should recognize any rent holiday period (for example, one or more months free) as reductions of lease rental expense on a straight-line basis over the lease term.

LESSOR TREATMENT OF SHORT-TERM LEASES

61. A lessor should recognize short-term lease payments as revenue based on the payment provisions of the contract/agreement. The lessor should not apply the recognition and measurement requirements of paragraphs 36–50 but should recognize a liability if payments are received in advance of the period to which they relate, or an asset for rent due if payments are received subsequent to that period. The lessor should recognize any rent holiday period (for example, one or more months free) as reductions of lease rental income on a straight-line basis over the lease term.

LEASE TERMINATIONS AND MODIFICATIONS

62. A lease contract/agreement may be amended while it is in effect. Examples of amendments include a change in consideration, a lengthening or shortening of the lease term (see par. 25 and 43), or adding or removing an underlying asset. An amendment to a lease contract/agreement should be considered a lease modification unless the lessee's right to use the underlying asset decreases. If the lessee's right to use the underlying asset decreases (for example, the lease term is shortened or the number of underlying assets is reduced), that change should be accounted for as a partial lease termination (see par. 64 - 65).

63. If a lease modification gives the lessee an additional right to use an underlying asset that was not included in the original lease and provides a price comparable to its stand-alone price (in the context of that particular contract/agreement), both the lessee and the lessor should account for that additional portion of the modified lease as a new lease, separate from the original portion of the lease.

LEASE TERMINATIONS

LESSEE TREATMENT OF LEASE TERMINATIONS

64. A lessee generally should account for the full or partial termination of a lease by reducing the carrying values of the lease asset and lease liability and recognizing a gain or loss for the difference. However, if the lease is terminated as a result of the lessee purchasing the underlying asset from the lessor, the lease asset should be reclassified to the appropriate class of owned asset. The lease liability should be changed to reflect only those payments yet to be made, and that change should be reflected in the cost of the purchased asset.

LESSOR TREATMENT OF LEASE TERMINATIONS

65. A lessor should account for the full or partial termination of a lease by reducing the carrying values of the lease receivable and related deferred revenue and recognizing a gain or loss for the difference. If the lease is terminated as a result of the lessee purchasing an underlying asset from the lessor, the carrying value of the underlying asset also should be derecognized and included in the calculation of any resulting gain or loss.

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.

LESSOR TREATMENT OF LEASE MODIFICATIONS

67. A lessor should account for a lease modification by remeasuring the lease receivable. The deferred revenue should be adjusted by the difference between the remeasured receivable and the receivable immediately before the lease modification. However, if the change relates to payments for the current period, the change should be recognized in the flows statement for the current period as revenue.

SUBLEASES

68. A sublease involves three parties: the original lessor, the original lessee (who also is the lessor in the sublease), and the new lessee. The original lessor should continue to apply the general lessor guidance. The federal entity that is the original lessee and becomes the lessor in the sublease should account for the original lease and the sublease as two separate transactions, as a lessee and a lessor, respectively. Those two separate

transactions should not be offset against one another. The new lessee should apply the general lessee guidance.

69. The original lessee (and now the lessor in a sublease) should include the sublease in its disclosure of the general description of lease arrangements. Its lessor transactions related to subleases should be disclosed separately from its lessee transactions related to the original lease.

SALE-LEASEBACK TRANSACTIONS

70. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller. A sale-leaseback transaction should include an exchange transaction sale¹¹ in order to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include an exchange transaction sale should be accounted for as a borrowing by both the seller-lessee and the buyer-lessor.
71. The sale and leaseback portions of a sale-leaseback transaction should be accounted for as two separate transactions – a sale transaction and a lease transaction – except that the difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred revenue or deferred expense to be recognized in the flow statement over the term of the lease. However, if the leaseback portion of the transaction qualifies as a short-term lease, any gain or loss on the sale should be recognized immediately.
72. A sale-leaseback transaction is considered to have off-market terms if there is a significant difference between (a) the sales price and the estimated fair value of the asset or (b) the present value of the contractual lease payments and the estimated present value of what the lease payments for that asset would be at a market price, whichever of the two differences is more readily determinable. The difference should be reported based on the substance of the transaction (for example, as a borrowing, a nonexchange transaction, or an advance lease payment) rather than as a part of the sales-leaseback transaction. The following are examples of off-market terms:
- a. A transaction has a sale price and lease payments that are both significantly higher than market
 - b. A transaction has a sale price that is significantly higher than market but the lease payments are at or below market
 - c. A transaction has a sale price that is significantly lower than market.
73. A seller-lessee should disclose the terms and conditions of sale-leaseback transactions in addition to the disclosures required of a lessee (par. 35). A buyer-lessor should provide the disclosures required of a lessor (par. 49).

¹¹ See SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, par. 295.

LEASE-LEASEBACK TRANSACTIONS

74. In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. The leaseback part of the transaction may involve an additional asset (such as leasing a building that has been constructed by a developer on land owned by and leased back to a federal entity) or only a portion of the original asset (such as leasing back only one floor of a building to the owner). A lease-leaseback transaction should be accounted for as a net transaction. Both parties to a lease-leaseback transaction should disclose the gross amounts of each portion of the transaction.

STANDARDS FOR INTRAGOVERNMENTAL LEASES

75. This section describes the overall recognition, measurement, and disclosure requirements 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*. Any lease that meets the definition of an intragovernmental lease would be required to follow the accounting guidance described in paragraphs 77 – 95 below.

INTRAGOVERNMENTAL LEASES – LESSEE ACCOUNTING

76. The following sections articulate the general recognition guidance for lessees of intragovernmental leases and detailed recognition guidance regarding several specific intragovernmental lease topics, as well as disclosure guidance.

RECOGNITION AND MEASUREMENT

GENERAL GUIDANCE FOR RECOGNITION OF INTRAGOVERNMENTAL LEASES¹²

77. A lessee should recognize lease payments, including lease-related operating costs (for example, maintenance, utilities, taxes, etc.) paid to the lessor, as expenses based primarily on the payment provisions of the lease. A lessee would not recognize a lease asset and a corresponding liability for an intragovernmental lease. Accordingly, a lessee would not recognize amortization expense related to a lease asset or interest expense on a lease liability.
78. Recognition should be based on the payment provisions of the lease. Prepaid rent or a payable for rent due should be recognized as an asset or liability, respectively, and an expense should be recognized in the appropriate period based on the specifics of the lease provisions.

GUIDANCE FOR RECOGNITION OF SPECIFIC INTRAGOVERNMENTAL LEASE TOPICS

79. Rental Increases – Rental increases may be fixed in the lease and take place with the passage of time (for example, be based on such factors as anticipated increases in costs or anticipated appreciation in property values, but the amount of the increase is specified in the lease) or they may be contingent on future events.
80. Contingent rental increases are based on changes in specific economic factors, for example, future activity levels or future inflation (for example, tied to a specific economic indicator where the specific amount of the change is not known).

¹² SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, par. 105-115 (as amended by SFFAS 30), continue to apply for non-reimbursed or under reimbursed intragovernmental lease arrangements.

81. If the lease provides for rental increases, a lessee should recognize the expense in the period of the increase as provided in the lease.¹³
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.
83. Lease incentives should be recognized as reductions of lease rental expense by the lessee on a straight-line basis over the lease term. The lessee should recognize the expenses or losses to which the incentives relate in the period the costs are incurred. For example, an incentive equal to the moving expense incurred to occupy the leased space reduces rent expense over the lease term and the moving expense is recognized in the period incurred (that is, when the move occurs).
84. Lease Concessions – Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. Lease concessions include rent holidays/free rent periods, reduced rents, or commission credits.
85. Lease concessions should be recognized as reductions of lease rental expense by the lessee on a straight-line basis over the lease term.
86. Leasehold Improvements – Leasehold improvements are additions, alterations, remodeling, renovations or other changes to a leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessee. Leasehold improvements that are placed in service at or after the beginning of the lease term should be amortized over the useful life (the normal operating life in terms of utility to the owner) of the leasehold improvement, but no longer than the expected lease term.

DISCLOSURES

87. Lessees should disclose a broad summary of significant intragovernmental leasing arrangements, including
- a. existence of intragovernmental leases and annual expense,
 - b. general lease terms with specific intragovernmental requirements (which may be grouped for purposes of disclosure), and
 - c. annual lease expense by major leased asset category.

¹³ Par. 79 – 81 outlines the general guidance for increases in rental payments; however guidance for other changes in rental payments is outlined in par. 82 – 85.

INTRAGOVERNMENTAL LEASE ARRANGEMENTS – LESSOR ACCOUNTING

88. The following sections articulate general recognition guidance for lessors of intragovernmental leases and detailed recognition guidance regarding several specific intragovernmental lease topics as well as disclosure guidance.

RECOGNITION AND MEASUREMENT

GENERAL GUIDANCE FOR RECOGNITION OF INTRAGOVERNMENTAL LEASES

89. A lessor should recognize lease receipts, including lease-related operating costs (for example, maintenance, utilities, or taxes) received from the lessee as income based primarily on the provisions of the lease.

GUIDANCE FOR RECOGNITION OF SPECIFIC INTRAGOVERNMENTAL LEASES

90. 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). Lease incentives should be recognized as reductions of lease rental income by the lessor on a straight-line basis over the lease term.
91. Lease Concessions – Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. Lease concessions include rent holidays/free rent periods, reduced rents, or commission credits.
92. Lease concessions should be recognized by the lessor as reductions in rental income on a straight-line basis over the lease term.
93. Lessor Improvements – Lessor improvements are additions, alterations, remodeling, renovations or other changes to a leased property that either extend the useful life of the existing property or enlarge or improve its capacity and are paid for (financed) by the lessor rather than by the lessee. These capital improvements are components of the leased property and should be capitalized and depreciated by the lessor over their useful life consistent with the lessor's accounting for property, plant, and equipment.¹⁴
94. Initial Direct Costs – Lessor initial direct costs should be expensed when incurred by the lessor.

¹⁴ This recognition is consistent with PP&E capital improvements outlined in SFFAS 6, par. 37.

DISCLOSURES

95. Lessors should disclose the following regarding intragovernmental leases:

- a. Future lease rental income as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years for lease arrangements over the lease term
- b. A broad summary of significant leases (which may be grouped for purposes of disclosure), including a breakdown of the number of leases with federally-owned assets and privately-owned assets

AMENDMENTS TO SFFAS 5, ACCOUNTING FOR LIABILITIES OF THE FEDERAL GOVERNMENT AND SFFAS 6, ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT

96. This Statement replaces the measurement and reporting requirements for lease accounting established in SFFAS 5, *Accounting for Liabilities of the Federal Government*, paragraphs 43 – 46. Therefore, the paragraphs marked below are rescinded.

SFFAS 5: Accounting for Liabilities of the Federal Government

~~[43.] **Capital leases** are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee:~~

- ~~• The lease transfers ownership of the property to the lessee by the end of the lease term.~~
- ~~• The lease contains an option to purchase the leased property at a bargain price.~~
- ~~• The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.~~
- ~~• The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.~~

~~The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. If a lease does not meet at least one of the above criteria it should be classified as an operating lease.~~

~~[44.] The amount to be recorded by the lessee as a liability under a capital lease is the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory cost to be paid by the lessor. [footnote ²⁰: "The cost of general property, plant, and equipment acquired under a capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception. See SFFAS No. 6, Accounting for Property, Plant, and Equipment.] However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the liability should be the fair value. If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.~~

~~[45.] The discount rate to be used in determining the present value of the minimum lease payments ordinarily would be the lessee's incremental borrowing rate unless (1) it is practicable for the lessee to learn the implicit rate computed by the lessor and (2) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both these conditions are met, the lessee shall use the implicit rate. The lessee's incremental borrowing rate shall be the Treasury borrowing rate for securities of similar maturity to the term of the lease.~~

~~[46.] During the lease term, each minimum lease payment should be allocated between a reduction of the obligation and interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability. [footnote²¹: OMB Circular No. A-11, "Preparation and Submission of Annual Budget Estimates," explains the measurement of budget authority, outlays, and debt for the budget in the case of lease purchases and other capital leases. Circular A-94, "Guidelines and Discount Rates for Benefit Cost Analysis of Federal Programs," provides the requirements under which a lease purchase or other capital lease has to be justified and the analytical methods that need to be followed.]~~

97. This Statement replaces the measurement and reporting requirements for lease accounting established in SFFAS 6, *Accounting for Property, Plant, and Equipment*, paragraphs 20 and 29. Therefore, the paragraphs marked below are rescinded.

SFFAS 6: *Accounting for Property, Plant, and Equipment*

~~[20.] Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, [footnote⁷: Note that the criteria for identifying capital leases for financial reporting purposes differ from OMB criteria for budget scoring of leases. OMB Circular No. A-11, *Preparation and Submission of Budget Estimates*, includes criteria for identifying operating leases in Appendix B. OMB provides four additional criteria which relate to the level of private sector risk involved in a lease purchase agreement. This is necessary because, for budget purposes, there is a distinction between lease purchases with more or less risk. This distinction is not made in the financial reports and, therefore, FASAB does not include the four criteria related to risk levels.] the lease should be classified as a capital lease by the lessee. Otherwise, it should be classified as an operating lease. [footnote⁸: "Operating leases" of PP&E are leases in which the Federal entity does not assume the risks of ownership of the PP&E. Multi-year service contracts and multi-year purchase contracts for expendable commodities are not capital leases.]~~

- ~~• The lease transfers ownership of the property to the lessee by the end of the lease term.~~
- ~~• The lease contains an option to purchase the leased property at a bargain price.~~
- ~~• The lease term is equal to or greater than 75 percent of the estimated economic life [footnote⁹: "Estimated economic life of leased property" is the estimated remaining period during which the property is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.] of the leased property.~~
 - ~~• The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value [footnote¹⁰: "Fair value" is the price for which an asset could be bought or sold in an~~

~~arm's-length transaction between unrelated parties (e.g., between a willing buyer and a willing seller). (adapted from Kohler's Dictionary for Accountants)] of the leased property.~~

~~The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.~~

~~[29.] The cost of general PP&E acquired under a **capital lease** shall be equal to the amount recognized as a liability for the capital lease at its inception (i.e., the net present value of the lease payments calculated as specified in the liability standard [footnote ²⁴]. See Statement of Recommended Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*.] unless the net present value exceeds the fair value of the asset).~~

98. This Statement also amends Technical Release (TR) 16, *Implementation Guidance for Internal Use Software*, paragraphs 26, 27, and 29 to delete the "capital and operating lease" references, as follows.

Technical Release 16: *Implementation Guidance for Internal Use Software*

[26.] Software License: If the term of software license(s) is 2 years or more with periodic payments, the license should be evaluated against lease criteria as stated in SFFAS X ~~SFFAS 5 paragraphs 43-46 and SFFAS 6 paragraph 20 to determine if it is a capital or operating lease.~~ If the license(s) is perpetual with an upfront cost [footnote ⁹: The cost could be charged as a one-time payment or financed over a set period of time.] to use the software for its entire lifetime, then the entity is purchasing IUS and should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed.

[27.] A license agreement may include executory costs for maintenance and technical support. Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. Assuming lease ~~capitalization~~ criteria and thresholds are met, software license capitalization amounts [footnote ¹⁰: SFFAS X ~~SFFAS 5, paragraph 44.~~] may be derived from the payment schedule contained in the license agreement. ~~As stated in SFFAS 5, If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated. Agencies may also want to consider having each license agreement specifically identify the various costs throughout the license lifecycle, for example, initial license, maintenance, and enhancement.~~

[29.] If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with the lease criteria stated in SFFAS X ~~SFFAS 5 and SFFAS 6~~, and as discussed in paragraph 26 of this TR. ~~SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform, or infrastructure that is used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for~~

maintaining the software, platform, or infrastructure should account for the software in accordance with SFFAS 10 and the full cost/inter-entity cost requirements of SFFAS 4.

IMPLEMENTATION

99. This Statement requires 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. Therefore, in the period of implementation,
- a. the determination of the lease term would assume that the lease term began as of the beginning of the period of implementation and
 - b. the lease liability and lease asset should initially be measured based on the remaining lease term and associated lease payments as of the beginning of the period of implementation.
100. The following implementation addresses specific leasing circumstances.
- a. Prospective Implementation - Entities should report the effect of implementing this Statement on existing leases prospectively in accordance with paragraph 13 of SFFAS 21, *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*. Accordingly, any changes in assets or liabilities related to existing leases should be treated prospectively. The change should be accounted for in the period of implementation and applicable future periods. No adjustments should be made to previously reported expenses or revenue.
 - b. Lease Term - The lease term should be determined based on the provisions of this Statement (see par. 14 – 18). However, the lease term of an existing lease should be based on the number of years remaining in the lease contract/agreement as of the beginning of the period of implementation and not the number of years in the initial lease term. For example, if the initial lease term was 20 years, with no options, at the beginning of Year 20X1 and the entity implements this Statement in Year 20X7 (6 years into the lease at the beginning of Year 20X7), the initial lease term upon implementation would be 14 years.
 - c. Short-term leases - A short-term lease would be determined based on the provisions of this Statement (see par. 59 – 61). However, if the remaining lease term of an existing lease meets the definition of a short-term lease (has a maximum possible term under the contract or arrangement of 24 months or less, including any options to extend, regardless of their probability of being exercised) that lease should apply the short-term lease guidance. For example, if the initial lease term was 60 months as of the beginning of Year 20X1, with no options to extend, and the entity implements this Statement in Year 20X5 (48 months into the lease at the beginning of Year 20X5); the initial lease term at implementation would be 12 months and the lease would meet the definition of a short-term lease. Hence, the entity should account for the lease as a short-term lease.

EFFECTIVE DATE

101. The requirements of this Statement are effective for reporting periods beginning after September 30, 2018. Early adoption is not permitted.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

- A1. This project was undertaken primarily because
- a. the current lease accounting 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*, have been criticized as ineffective because they do not make meaningful distinctions between capital and operating leases based on the substance of lease transactions, and
 - b. the lease accounting standards in SFFAS 5 and 6 are based on Financial Accounting Standards Board (FASB) lease accounting standards which have been amended; in addition existing FASAB standards are not comprehensive and do not provide meaningful information on federal leasing activities.
- A2. Lease accounting was first addressed by the FASAB during the development of SFFAS 5 and 6. At that time the Board decided to use the high level language on lease accounting from FASB Statement of Financial Accounting Standards (SFAS) No. 13 *Accounting for Leases* [subsequently codified in Accounting Standards Codification (ASC) - Topic 840 *Leases*]. This minimal lease guidance included the definition of a capital lease, the criteria for capital leases, and the measurement of a capital lease asset and liability. The Board had plans to use this preliminary guidance as a placeholder until it was prepared to add lease accounting to its agenda as a separate project. Lease accounting had been on the list of potential Board agenda items each time the Board has considered its agenda for new projects.
- A3. There are several areas of lease accounting that were covered by the FASB standards that were never specifically covered in the FASAB standards. Some of those topics include leasehold improvements, lease terms, leveraged leases, and subleases. The federal community often stressed that the federal standards on lease accounting should be comprehensive to alleviate questions on when and if FASB standards apply to federal entities when the federal standards are silent on a topic.
- A4. In August 2011, FASAB began a project to revise its current standards on lease accounting. FASAB staff formed a task force to assist in developing the proposed standards for leases. Task force members included accounting, budget, and subject matter experts from federal agencies and independent public accounting firms.
- A5. The task force met several times over the course of the project and also exchanged numerous ideas and recommendations electronically. The task force views and recommendations were sought by staff in developing and describing alternatives to

present to the Board during the development of these standards. The task force's assistance was essential and its views carefully considered by members during deliberations. The task force played an important role in the research and release of this exposure draft.

- A6. In evaluating an approach applicable to federal leases, the Board considered the approaches used in the following documents:
- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 13, *Accounting for Leases* [Superseded by FASB Accounting Standards Codification (ASC) 840, which was subsequently superseded by ASC 842]
 - Governmental Accounting Standards Board (GASB) Exposure Draft, *Leases*, January 25, 2016
 - International Accounting Standards Board (IASB) International Accounting Standard (IAS) 17, *Leases*, which was superseded by International Financial Reporting Standard (IFRS) 16.
 - International Public Sector Accounting Standards Board (IPSASB) International Public Sector Accounting Standard (IPSAS) 13, *Leases*.
- A7. At the inception of the project the Board decided to coordinate with GASB on the lease project because of the similarities among governmental entities regarding lease activities and reporting objectives. Staff worked closely with GASB staff during the development of the proposals. In 2014 FASAB and GASB met jointly to discuss similar issues related to each of their ongoing lease accounting projects. As a result of this collaboration, similar wording may appear in some sections of the FASAB and GASB standards.¹⁵
- A8. This Statement amends the lease accounting standards in SFFAS 5, SFFAS 6, and TR 16. This Statement also establishes distinct standards for intragovernmental leases.

KEY AREAS OF IMPROVEMENT

- A9. This lease proposal will improve the existing lease accounting standards in SFFAS 5 and SFFAS 6 by
- a. providing relevant and meaningful financial information needed by federal financial statement users and
 - b. providing comprehensive lease standards that appropriately address the various lease transactions/activities of the federal community.
- A10. The Board believes that in a lease transaction, a lessee receives the right to use an underlying asset (the asset that is subject to the lease, such as a vehicle or building) at the beginning of the lease term. In exchange, the lessee promises to make payments over time for the right to use that underlying asset. The guidance in SFFAS 5 and 6 was based on the notion that some leases are essentially financed purchases of the underlying asset (classified as capital leases) and other leases (classified as operating leases) are not. The classification of a lease as capital or operating depended on whether the lease met any of

¹⁵ The GASB material is copyrighted by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is used with permission.

four tests. Those tests were intended to determine whether most of the risks and benefits of ownership of the underlying asset were transferred to the lessee. Those tests have been criticized because their bright-line nature often resulted in very similar leases being accounted for in different ways.

SCOPE

- A11. For purposes of applying this Statement, a lease is defined as a contract or agreement that conveys the right to use a nonfinancial asset¹⁶ (the underlying asset) for a period of time in an exchange transaction. Leases include contracts or agreements that, although not explicitly identified as leases, meet the definition of a lease (which reflects the substance of a lease). This definition does not include contracts or agreements for services unless that contract or agreement also conveys the right to use a nonfinancial asset (the underlying asset) for a period of time in an exchange transaction.
- A12. This Statement does not apply to leases of federal natural resources as defined in Technical Bulletin (TB) 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas* and leases of federal oil and gas resources as defined in SFFAS 38, *Accounting for Federal Oil and Gas Resources*.
- A13. GASB's Leases exposure draft specifically excludes, "contracts that meet the definition of a service concession arrangement in paragraph 4 of Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (SCAs)." Currently FASAB standards are silent on SCAs. Through its discussions the lease task force identified several federal entities that have SCAs, and there was a concern that the proposed lease definition could inadvertently include SCAs. The Board considered specifically excluding SCAs from the lease standard. To accomplish the exclusion, the Board considered adopting GASB's definition of SCA from Statement No. 60 due to the lack of a federal definition of SCA.
- A14. Because SCAs are not currently addressed in federal accounting standards, the Board decided that specifically excluding SCAs from the lease standard would raise more questions. Furthermore, SCAs are expected to be addressed in the public-private partnership recognition and measurement project and therefore the Board agreed to remain silent on SCAs in the lease proposal. In conclusion, the Board believes the GAAP hierarchy will continue to guide preparers and auditors in accounting for SCAs.

DEFINITIONS

- A15. In this Statement, a lease is defined 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. In the early stages of the project the Board deliberated over the use of "contract" or "agreement" in the definition of a lease. The Board considered the GASB approach that the term contract is more precise and limiting and requires that a lease be legally enforceable. Because legal enforceability is not the primary driver in

¹⁶ Examples of nonfinancial assets include land, buildings, vehicles, equipment, internal use software, and intangible assets. Examples of financial assets include cash, investments, and receivables.

intragovernmental leasing transactions, the Board decided to add “agreement” in addition to “contract” in the lease definition to alleviate ambiguity in the application of the definition, especially in the case of intragovernmental leases which are often referred to as “lease agreements.”

LEASE TERM -- RENEWAL AND TERMINATION OPTIONS

- A16. Federal leases often include lessee options to renew, extend, or terminate a lease. Due to federal budget scoring rules and fiscal funding mechanisms, many federal leases include relatively short noncancelable periods. The Board concluded that the lease term used to measure the lease liability should not be limited to the noncancelable lease periods, but should include certain probable renewal option periods and consider the probability of termination options being exercised, so that the lease term reflects how long the lease is expected to be in effect.
- A17. The probability of a renewal or termination option being exercised applies only if that option pertains to the lessee alone. If either the lessee or the lessor has the option to cancel a lease (or if both parties have to agree to renew), the lease contract/agreement is not enforceable beyond that point. In those cases when either the lessee or the lessor could cancel the lease at any time, for example month-to-month lease holdovers, rolling lease extensions, or any lease that continues into a holdover period until a new contract or agreement is signed, the contract or agreement would be considered cancelable. When a lease contains a lessor-only option to terminate the lease, a lessee would have difficulty evaluating the likelihood of that option being exercised. This difficulty and the resulting cost outweigh the potential benefits of including the extra periods in the lease term. The Board also agreed that 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.
- A18. The Board considered several potential probability thresholds for including a period covered by a renewal or termination option in the lease term. The Board considered its own definition of probable, GASB’s definition of probable, and FASB’s probability threshold “reasonably certain.” FASB’s probable definition equates to more likely than not (>50% probability). GASB’s probable definition equates to likely to occur and has a higher threshold of probability than more likely than not. FASB’s reasonably certain has an even higher threshold than likely to occur. The Board agreed to retain its definition of probable because it is more clearly defined and there seemed to be no compelling reason to introduce a new term for the sake of a higher threshold.

REMEASUREMENT

- A19. This Statement requires that when a lease liability is remeasured, the corresponding lease asset be adjusted by the same dollar amount (except in cases of impairment and in cases in which the adjustment would cause the asset to be reported as a negative amount). While acknowledging that adjusting the lease asset for a change in the lease liability

results in the lease asset no longer being measured at adjusted historical cost, the Board believes that such an adjustment is practical.

NON-INTRAGOVERNMENTAL LEASES

RECOGNITION AND MEASUREMENT FOR LESSEES – LEASE LIABILITY

- A20. SFFAC 5 defines a liability as a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand. The Board believes that the lessee taking possession of the underlying asset or gaining access to use the underlying asset is an event that creates such an obligation until the end of the lease term.
- A21. The Board believes the present value of future lease payments to be made for the lease term, which represent the obligations of the lessee under the lease contract/agreement, is the appropriate measurement of the liability. Such a calculation is consistent with the premise that a lease is a financing transaction and supports recognition of the cost of the financing.

RECOGNITION AND MEASUREMENT FOR LESSEES – LEASE ASSET

- A22. Assets are defined in SFFAC 5 as resources that embodies economic benefits or services the federal government controls. Lessees should recognize a lease asset to correspond with the lease liability. At the beginning of a lease, the lessee obtains the right to use the underlying asset and that right is a resource embodying economic benefits. The Board believes this right meets the definition of an asset. Because the lease liability represents the amount to be paid for the lease asset, the Board concluded that the initial measurement of the lease asset should be based on the measurement of the associated lease liability. PP&E assets generally are measured at historical cost, which is the amount paid for those assets. Therefore, measuring the lease asset based on the lease liability is consistent with historical cost accounting applicable to PP&E.

RECOGNITION AND MEASUREMENT FOR LESSORS

- A23. Symmetry between the lessee and lessor accounting models is important in establishing accounting and financial reporting standards. The Board believes that federal entity lessees and lessors should account for the same transaction in a way that mirrors how the other party accounts for it.
- A24. The lease contract gives the lessor the right to receive payments in exchange for the lessee's right to use the underlying asset. The Board believes that right meets the definition of an asset in SFFAC 5. Assets are defined as a resource that embodies economic benefits or services that the federal government controls. The right to receive payments is a resource that can be drawn upon, and the lessor presently controls that right.

SHORT-TERM LEASE EXCEPTION

A25. The Board considered the short-term lease exception GASB proposed, which requires governments to recognize leases with useful lives or maturities of less than one year. The Board decided to align the lease short-term exception with the PP&E standard which defines PP&E as a tangible asset with an estimated useful life of 24 months or more. The reporting of short-term leases in this Statement is intended to reduce the cost to federal entities of implementing these standards. This short-term exception eliminates the need for preparers to calculate amounts for short-term lease assets and liabilities. This exception requires lessees and lessors to recognize expense and revenue based on the payment provisions of those lease contracts/agreements with useful lives or maturities of less than two years. This measurement approach is not cash-basis recognition, as federal entities are still required to recognize receivables and payables for lease payments paid or received before or after the period to which they apply.

INTRAGOVERNMENTAL LEASES

A26. During the research phase of the project, the General Services Administration (GSA) provided an educational session to the Board where GSA representatives explained in-depth GSA's role in federal leasing. Based primarily on that discussion, the Board agreed that intragovernmental leases should be accounted for differently than leases between federal entities and non-federal entities. The Board agreed that a simplified approach for recognizing intragovernmental leases would be pragmatic and cost efficient.

A27. This Statement provides the overall recognition, measurement, and disclosure requirements 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*.

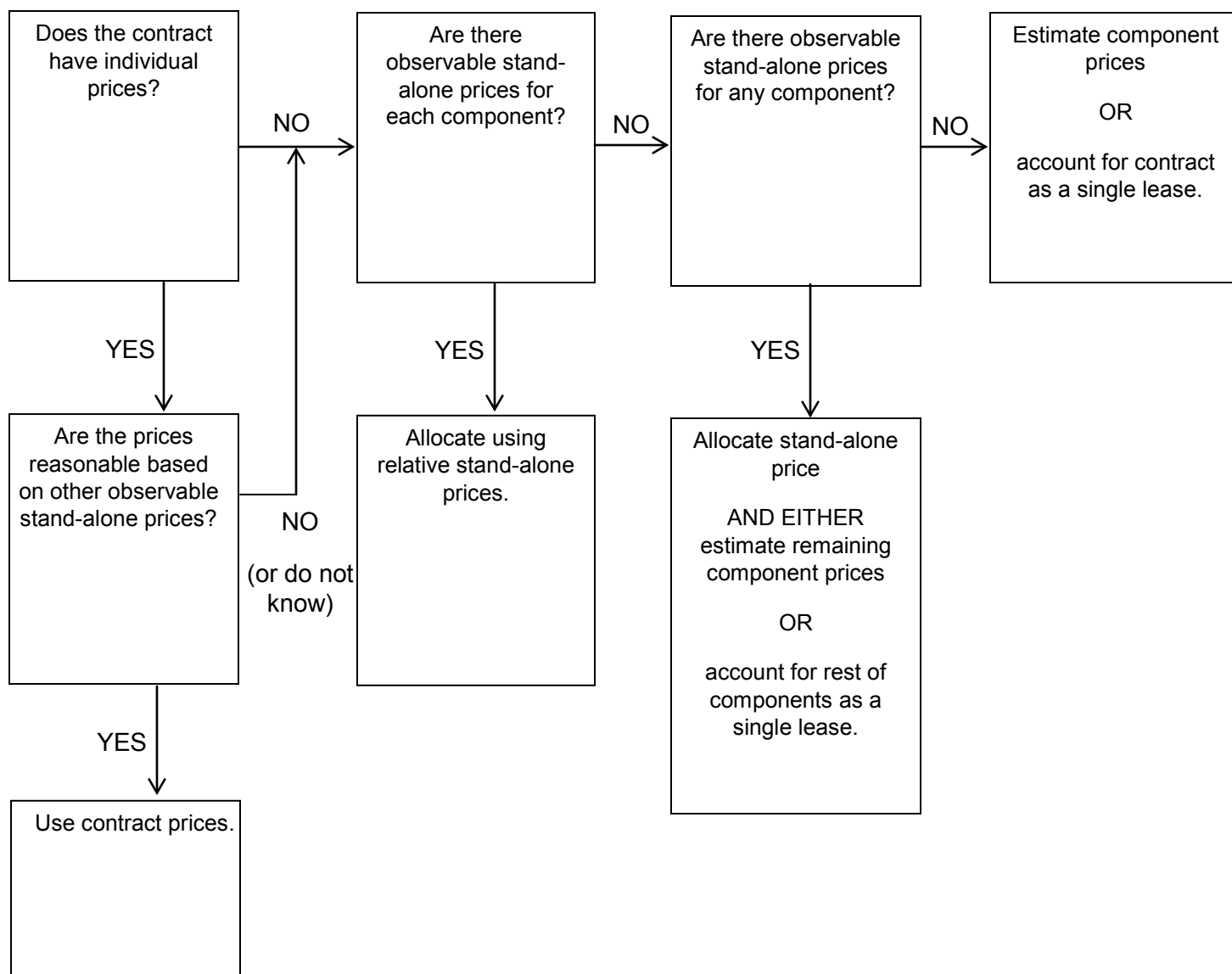
A28. The terms "intragovernmental" and "inter-entity" have been used interchangeably. Earlier FASAB standards predominately used "inter-entity." However, government-wide usage of "intragovernmental" has become more common, and therefore the Board decided to use intragovernmental in this Statement to describe leases occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47.

A29. This Statement provides general guidance on the recognition and measurement of lease rental increases, as well as guidance on other changes in the lease payments, such as lease incentives and lease concessions. The Board believes that rent increases are related to economic events, while lease incentives and concessions are more closely aligned with marketing cost. Therefore lessee rental increases should be recognized as expense in the period of the increase as provided in the lease; lease incentives and concessions should be recognized by the lessee/lessor as reductions of lease rental expense/lease rental income on a straight-line basis over the lease term.

APPENDIX B: ILLUSTRATION

This appendix illustrates the application of the provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Standards.

The following flowchart¹⁷ is intended to aid in the application of the provisions for contracts with multiple components of this Statement – paragraphs 51 - 56.



¹⁷ This illustration has been adapted from the GASB Lease ED, Appendix C, *Flowchart for Allocation of Consideration to Multiple Components*.

APPENDIX C: ABBREVIATIONS

ASC	Accounting Standards Codification
CFR	Consolidated financial report of the U.S. Government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
PP&E	Property, Plant, and Equipment
SCA	Service Concession Arrangement
OMB	Office of Management and Budget
SFAS	Statement of Financial Accounting Standards (FASB)
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin
TR	Technical Release

APPENDIX D: GLOSSARY

Lease

A lease is 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.

Intragovernmental Lease

A lease occurring within a consolidation entity or between two or more consolidation entities as defined under SFFAS 47, *Reporting Entity*.¹⁸

Probable

That which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven.

Lease Option Periods

Lease option periods are additional lease periods beyond the initial lease term – the options may be included in the initial lease or may be agreed to later in the lease term.

Initial Direct Costs

Initial direct costs are costs that are directly attributable to negotiating and arranging a lease or portfolio of leases and would not have been incurred without entering into the lease.

Short-Term Lease

A short-term lease is a lease that, at the beginning of the lease, has a maximum possible term under the contract or arrangement of 24 months or less, including any options to extend, regardless of their probability of being exercised.

Lessee's Incremental Borrowing Rate

The lessee's incremental borrowing rate is the estimated rate that would be charged for borrowing the lease payment amounts for the lease term.

Discount Rate

A discount rate is an interest rate that is used in present value calculations to equate amounts that will be received or paid in the future to their present value.

¹⁸ SFFAS 47, *Reporting Entity*, outlines the characteristics as a whole that an organization would have to be considered a consolidated entity (see SFFAS 47 par. 38-42).

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