Federal Accounting Standards Advisory Board

February 10, 2017

Memorandum

To: Members of the Board

MEMBER ACTION REQUESTED:
• Review **Attachment 3** Staff Analysis and prepare to answer questions presented on pages 3 and 4.

Monica R. Valentine
From: Monica R. Valentine, Assistant Director

Wendy M. Payne
Through: Wendy M. Payne, Executive Director

Subject: **Initial Staff Analysis of Comment Letters** – *Leases*[1] – **Tab C-2**

MEETING OBJECTIVE

The objective for this meeting is to review staff's initial analysis of the comment letters received on the *Leases* exposure draft and discuss questions raised by staff.

BRIEFING MATERIAL

The briefing materials include this memorandum, which lists thirteen questions for the Board; and **Attachment 3**, which provides a high level summary of the responses, staff's analysis of those responses, staff's recommendations for the Board, and related questions for the Board.

Staff previously provided to the Board **Tab C-1** which included:

- The staff summary which consisted of a brief background, summary of outreach efforts and tables identifying respondents by type and affiliation.
- **Attachment 1** which included comment letters with a table of contents and identifies respondents in the order their responses were received.
- **Attachment 2** included the original Exposure Draft (ED).

[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.

BACKGROUND

On September 26, 2016, the Board issued the ED, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*. The 90+-day comment period ended on January 6nd and as of February 10 we have received 25 responses.

NEXT STEPS

Staff will further analyze the comment letters, provide additional issues with staff analysis and recommendations, and provide suggested edits to the original ED for Board consideration.

MEMBER FEEDBACK

Please contact staff as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact Monica by telephone at 202-512-7362 or by e-mail at ValentineM@fasab.gov with a cc to PayneW@fasab.gov

Questions for the Board

Question 1: Does the Board agree with staff's recommendation that implementation guidance will be necessary to assist entities effectively implement the amendments to the Leases standard?

Question 2: Does the Board agree with staff's recommendation to add the notion of control to the lease definition and include additional language connecting the definition to SFFAC 5's definition of an asset?

Question 3: Does the Board agree with staff's recommendation to change the term "nonfinancial asset" to "nonmonetary asset" in the final amended Leases standard?

Question 4: Does the Board agree with staff's recommendation to carry forward into the final standard the method used in determining the lease term, including what is considered the "noncancelable period" proposed in the ED?

Question 5: Does the Board agree with staff's recommendation to carry forward into the final standard the probability threshold used when assessing whether renewal and termination options will be exercised?

Question 6: Does the Board agree with staff's recommendation to carry forward into the final standard the initial lessee recognition proposed in the ED?

Question 7: Does the Board agree with staff's recommendation to carry forward into the final standard the recognition and measurement of the lease liability by the lessee proposed in the ED?

Question 8: Does the Board agree with staff's recommendation to carry forward into the final standard the interest rate used to calculate the lease liability proposed in the ED?

Question 9: Does the Board agree with staff's recommendation to carry forward into the final standard the circumstances when the lessee must remeasure the lease liability proposed in the ED?

Question 10: Does the Board agree with staff's recommendation to carry forward into the final standard the recognition and measurement of the lease asset by the lessee proposed in the ED?

Question 11: Does the Board agree with staff's recommendation to carry forward into the final standard the lease term of 24 months or less for a short-term lease proposed in the ED?

Question 12: Does the Board agree with staff's recommendation to change the definition of short-term lease from "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" to "a lease with a lease term (as defined in paragraph 14) of 24 months or less"?

Question 13: Does the Board agreed with staff's recommendation to change the effective date of the amended Leases standard to FY 20?

Respondent #5	Question 1: Definition of Lease
Issue:	The definition is a bit broad and generic, and needs to be enhanced.
Staff Analysis:	The definition needs to be broad in order to apply to leasing activities of all federal entities. Implementation guidance will provide more details on applying the standard.
Staff Action or Recommendation	Implementation guidance should be developed as soon as the standard is finalized. Staff would like to reconvene the Leases task force and begin efforts towards the issuance of implementation guidance as soon as the amended standard becomes final.
Board Question #1	Does the Board agree with staff's recommendation that implementation guidance will be necessary to assist entities effectively implement the amendments to the Leases standard?

Respondent #9	Question 1: Definition of Lease
Issue:	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. In addition the We propose 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 indefeasible rights of use.
Staff Analysis:	Paragraph 8 of the *Leases* exposure draft (ED) notes that the statement does not apply to leases of federal natural resources as defined in Technical Bulletin (TB) 2011-1. The ED does not specifically exclude leases of inventory or assets under construction. GASB has tentatively agreed to add "leases of inventory" to its current scope exclusions to the final Leases standards. The Board had previously agreed to include intangible assets in the scope of the standard.
Staff Action or Recommendation	Staff will discuss the need to address leases of inventory and assets under construction with the Leases task force. Staff will also discuss with respondent their specific issues with leases of intangible assets.
Board Question #1	Does the Board agree with staff's recommendation that implementation guidance will be necessary to assist entities effectively implement the amendments to the Leases standard?

Respondent #14	**Question 1: Definition of Lease**
Issue:	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.
Staff Analysis:	SFFAC 5 identifies “control by the federal government” as an essential characteristic of an asset and further states that “control” and the other essential characteristic (economic benefit or service) are inherent to all assets and without them an asset would not exist. GASB has tentatively agreed to add the notion of “control” to its lease definition and add an explanatory paragraph to discuss how a contract conveys the control of the right to use the underlying asset. The explanatory paragraph is based on the GASB conceptual framework’s definition of an asset. The Board previously agreed that the leased asset would be classified based on the nature of the asset and not to specifically identify all leases as PP&E or Intangibles.
Staff Action or Recommendation	Staff recommends the definition of a lease proposed in the ED be modified to add the notion of control to the definition and include additional language connecting the definition to SFFAC 5’s definition of an asset.
Board Question #2	Does the Board agree with staff’s recommendation to add the notion of control to the lease definition and include additional language connecting the definition to SFFAC 5’s definition of an asset?

Respondent #15	**Question 1: Definition of Lease**
Issue:	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.
Staff Analysis:	Both of the terms “nonfinancial” and “nonmonetary” are used throughout FASAB guidance; however neither term is defined by FASAB. Staff discovered that industry definitions of the terms are synonymous. Staff also noted that in FASAB guidance, “nonfinancial” most often referred to information and “nonmonetary” referred to assets. The Leases ED’s use of “nonfinancial” derived from GASB’s proposed lease definition.
Staff Action or Recommendation	To be consistent with existing FASAB usage of “nonfinancial” and “nonmonetary,” staff recommends that the term “nonfinancial asset” be changed to “nonmonetary asset” in the final amended Leases standard.
Board Question #3	Does the Board agree with staff’s recommendation to change the term “nonfinancial asset” to “nonmonetary asset” in the final amended Leases standard?

Respondent #9	**Question 2: Determining the Lease Term**
Issue:	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.
Staff Analysis:	Fiscal funding clauses and other lease options meet the criteria for contingent liabilities whose probability has to be assessed by the entity.
Staff Action or Recommendation	Staff recommends that the method used in determining the lease term proposed in the ED is carried forward into the final standard.
Board Question #4	Does the Board agree with staff's recommendation to carry forward into the final standard the method used in determining the lease term, including what is considered the "noncancelable period" proposed in the ED?

Respondent #18	**Question 2: Determining the Lease Term**
Issue:	The lease term should not 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 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.
Staff Analysis:	Lease options meet the criteria for contingent liabilities whose probability has to be assessed by the entity.
Staff Action or Recommendation	Staff recommends that the method used in determining the lease term proposed in the ED is carried forward into the final standard.
Board Question #4	Does the Board agree with staff's recommendation to carry forward into the final standard the method used in determining the lease term, including what is considered the "noncancelable period" proposed in the ED?

Respondent #19	**Question 2: Determining the Lease Term**
Issue:	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.
Staff Analysis:	The "noncancelable period" is outlined in Paragraph 15 of the ED. It is implied that some sort of penalty would be incurred by the lessee during the noncancelable period if canceled. A reference to "cancellation penalty" is noted in Paragraph 17.b. of the ED. The use of the phrase "firm term" may be specific to DOI because no other respondents or task force members have noted that terminology.
Staff Action or Recommendation	Staff recommends that the method used in determining the lease term, including what is considered the "noncancelable period" proposed in the ED is carried forward into the final standard. Staff will discuss the use of the phrase "firm term" with Leases task force.
Board Question #4	Does the Board agree with staff's recommendation to carry forward into the final standard the method used in determining the lease term, including what is considered the "noncancelable period" proposed in the ED?

Respondent #22	**Question 2: Determining the Lease Term**
Issue:	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. 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. 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.
Staff Analysis:	Overall, the respondents did not disagree with the Board's use of "probable" as the probability threshold for assessing whether renewal and termination options will be exercised. The Board thoroughly deliberated the use of "probable" as the probability threshold for assessing whether renewal and termination options will be exercised prior to the release of the ED. During Board deliberations prior to the release of the ED the Board reviewed the "noncancelable" language adopted by FASB and the language proposed by GASB and chose to develop its own language which was proposed in the ED.
Staff Action or Recommendation	Staff recommends the probability threshold used when assessing whether renewal and termination options will be exercised is carried forward into the final standard. Staff will specifically discuss with respondent their interpretation of Paragraph 15 and will recommend any changes if necessary.
Board Question #5	Does the Board agree with staff's recommendation to carry forward into the final standard the probability threshold used when assessing whether renewal and termination options will be exercised?

Respondent #5	Question 3: Initial Lessee Recognition
Issue:	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. 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.
Staff Analysis:	In the BFC of the ED the Board states that, "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. 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."
Staff Action or Recommendation	Staff recommends the initial lessee recognition proposed in the ED is carried forward into the final standard.
Board Question #6	Does the Board agree with staff's recommendation to carry forward into the final standard the initial lessee recognition proposed in the ED?

Respondent #9	Question 3: Initial Lessee Recognition
Issue:	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.
Staff Analysis:	In the BFC of the ED the Board states that, "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." SFFAC 5 goes on to say, "The second essential characteristic of an asset is control, which refers to the ability of the federal government to obtain the economic benefits or services embodied in a resource and to deny or regulate the access of others. It is possible that the government does not actively exercise control." Lease is defined as a right to use an asset not the right to own or have title to.
Staff Action or Recommendation	Staff recommends the initial lessee recognition proposed in the ED is carried forward into the final standard.
Board Question #6	Does the Board agree with staff's recommendation to carry forward into the final standard the initial lessee recognition proposed in the ED?

Respondent #19	**Question 3: Initial Lessee Recognition**
Issue:	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 agencies where the benefit does not outweigh the cost.
Staff Analysis:	Although the Board reviewed and discussed the new lease standards of the other standard setters, the Board used those other standards as foundation and relied on the FASAB concept statements and in large part the input of the FASAB Leases task force. The Board believes that the substance of the transaction should be reflected in the financial report and not the myriad of possible outcomes. The ED does require entities to assess the probability of the renewal and cancellation options being exercised.
Staff Action or Recommendation	Staff recommends the initial lessee recognition proposed in the ED is carried forward into the final standard.
Board Question #6	Does the Board agree with staff's recommendation to carry forward into the final standard the initial lessee recognition proposed in the ED?

Respondent #5	**Question 4: Lessee Recognition and Measurement of the Lease Liability**
Issue:	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.
Staff Analysis:	In the BFC of the ED the Board states that, "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." The BFC goes on to say that, "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."
Staff Action or Recommendation	Staff recommends the recognition and measurement of the lease liability by the lessee proposed in the ED is carried forward into the final standard.
Board Question #7	Does the Board agree with staff's recommendation to carry forward into the final standard the recognition and measurement of the lease liability by the lessee proposed in the ED?

Respondent #9	Question 5: The Interest Rate Used to Calculate the Lease Liability
Issue:	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.
Staff Analysis:	Appendix B of OMB Circular A-11 is used for the preparation, submission, and execution of the federal budget. The accounting standards are not required to align with the budget preparation. The Board agreed that the Treasury borrowing rate is a risk-free rate and is not reflective of the lessor’s implicit rate, and the risk-free rate would understate the interest expense implicit in the lease payments.
Staff Action or Recommendation	Staff recommends the interest rate used to calculate the lease liability proposed in the ED is carried forward to the final standard.
Board Question #8	Does the Board agree with staff’s recommendation to carry forward into the final standard the interest rate used to calculate the lease liability proposed in the ED?

Respondent #18	Question 5: The Interest Rate Used to Calculate the Lease Liability
Issue:	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.
Staff Analysis:	Footnote 9 of the ED states, “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.”
Staff Action or Recommendation	Staff recommends the interest rate used to calculate the lease liability proposed in the ED is carried forward to the final standard.
Board Question #8	Does the Board agree with staff’s recommendation to carry forward into the final standard the interest rate used to calculate the lease liability proposed in the ED?

Respondent #19	Question 5: The Interest Rate Used to Calculate the Lease Liability
Issue:	For Government leases, this *[the interest rate implicit in the leases]* 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.
Staff Analysis:	Operating expenses such as utilities, management fees, common area maintenance fees, parking, etc. are not considered "fixed payments," as noted in Paragraph 21 of the ED. Fixed payments are included in the calculation of the lease liability.
Staff Action or Recommendation	Staff recommends the interest rate used to calculate the lease liability proposed in the ED is carried forward to the final standard.
Board Question #8	Does the Board agree with staff's recommendation to carry forward into the final standard the interest rate used to calculate the lease liability proposed in the ED?

Respondent #22	Question 5: The Interest Rate Used to Calculate the Lease Liability
Issue:	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.
Staff Analysis:	The ED states, "If the rate cannot be **reasonably estimated** *[emphasis added]* 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."
Staff Action or Recommendation	Staff recommends the interest rate used to calculate the lease liability proposed in the ED is carried forward to the final standard.
Board Question #8	Does the Board agree with staff's recommendation to carry forward into the final standard the interest rate used to calculate the lease liability proposed in the ED?

Respondent #23	**Question 5: The Interest Rate Used to Calculate the Lease Liability**
Issue:	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
Staff Analysis:	The ED states, "If the rate cannot be **reasonably estimated** *[emphasis added]* 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."
Staff Action or Recommendation	Staff recommends the interest rate used to calculate the lease liability proposed in the ED is carried forward to the final standard.
Board Question #8	Does the Board agree with staff's recommendation to carry forward into the final standard the interest rate used to calculate the lease liability proposed in the ED?

Respondent #4	**Question 6: Lease Liability Remeasurement**
Issue:	We do not agree with the circumstances that dictate when the lessee must remeasure the lease liability. We do 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.
Staff Analysis:	Paragraph 25 of the ED specifically 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."
Staff Action or Recommendation	Staff recommends the circumstances when the lessee must remeasure the lease liability proposed in the ED are carried forward to the final standard.
Board Question #9	Does the Board agree with staff's recommendation to carry forward into the final standard the circumstances when the lessee must remeasure the lease liability proposed in the ED?

Respondent #5	**Question 6: Lease Liability Remeasurement**
Issue:	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.
Staff Analysis:	Remeasurement of the lease asset is driven by the remeasurement of the lease liability and includes the change in the estimated amounts for payments already included in the liability. Paragraph 31 of the ED requires that the lease asset be amortized in a systematic and rational manner.
Staff Action or Recommendation	Staff recommends the circumstances when the lessee must remeasure the lease liability proposed in the ED are carried forward to the final standard.
Board Question #9	Does the Board agree with staff's recommendation to carry forward into the final standard the circumstances when the lessee must remeasure the lease liability proposed in the ED?

Respondent #18	Question 6: Lease Liability Remeasurement
Issue:	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 federal agency.
Staff Analysis:	Remeasurement of the lease liability due to lease modifications and terminations is noted in the ED in Paragraph 25a. The Board agreed that factors as noted in Paragraphs 25a. – 25e. of the ED should trigger the remeasurement of the liability.
Staff Action or Recommendation	Staff recommends the circumstances when the lessee must remeasure the lease liability proposed in the ED are carried forward to the final standard.
Board Question #9	Does the Board agree with staff's recommendation to carry forward into the final standard the circumstances when the lessee must remeasure the lease liability proposed in the ED?

Respondent #22	Question 6: Lease Liability Remeasurement
Issue:	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 such instances occur in their footnote section of the annual report that discloses such unique accounting methodologies for recording asset values?
Staff Analysis:	Paragraphs 62 and 63 of the ED clarify lease terminations and modifications. Paragraph 62 of the ED states, "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).” The lessee disclosure requirements are identified in Paragraph 35 of the ED. However if an entity would like to include additional information about their methodologies for recording lease assets the standards do not prevent the disclosure of that additional information.
Staff Action or Recommendation	Staff recommends the circumstances when the lessee must remeasure the lease liability proposed in the ED are carried forward to the final standard.
Board Question #9	Does the Board agree with staff’s recommendation to carry forward into the final standard the circumstances when the lessee must remeasure the lease liability proposed in the ED?

Respondent #9	**Question 7: Lessee Recognition and Measurement of the Lease Asset**
Issue:	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.
Staff Analysis:	Paragraph 30b. of the ED requires that in addition to the initial measurement of the lease liability, the lease asset should also include lease payments made to the lessor at or before the beginning of the lease, <u>less any lease incentives received from the lessor</u> *[emphasis added]*. The costs required in Paragraphs 30b. & 30c. are consistent with cost incurred when assets are purchased through a financing arrangement.
Staff Action or Recommendation	Staff recommends the recognition and measurement of the lease asset by the lessee proposed in the ED is carried forward into the final standard.
Board Question #10	Does the Board agree with staff's recommendation to carry forward into the final standard the recognition and measurement of the lease asset by the lessee proposed in the ED?

Respondent #19	**Question 7: Lessee Recognition and Measurement of the Lease Asset**
Issue:	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.
Staff Analysis:	Paragraphs 30b. & 30c. of the ED requires that in addition to the initial measurement of the lease liability, the lease asset should also include lease payments made to the lessor at or before the beginning of the lease, less any lease incentives received from the lessor; and initial direct costs that are ancillary charges necessary to place the lease asset into service. These two additional amounts represent prepayments, which are amounts paid to obtain use of the lease asset. The initial direct costs include commissions and legal fees. These costs are consistent with cost incurred when assets are purchased through a financing arrangement.
Staff Action or Recommendation	Staff recommends the recognition and measurement of the lease asset by the lessee proposed in the ED is carried forward into the final standard.
Board Question #10	Does the Board agree with staff's recommendation to carry forward into the final standard the recognition and measurement of the lease asset by the lessee proposed in the ED?

Respondent #6	**Question 9: Short-term Lease – Definition, Measurement, & Recognition**
Issue:	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.
Staff Analysis:	The BFC of the ED states, "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."
Staff Action or Recommendation	Staff recommends that the lease term of 24 months or less for a short-term lease proposed in the ED is carried forward into the final standard.
Board Question #11	Does the Board agree with staff's recommendation to carry forward into the final standard the lease term of 24 months or less for a short-term lease proposed in the ED?

Respondent #20	**Question 9: Short-term Lease – Definition, Measurement, & Recognition**
Issue:	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 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.
Staff Analysis:	There are inconsistencies between Paragraph 14 and Paragraph 59 of the ED. The respondent's example could cause confusion as to which section of the guidance should be applied.
Staff Action or Recommendation	Staff recommends changing the definition of short-term lease from "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" to "a lease with a lease term (as defined in paragraph 14) of 24 months or less."

Board Question #12	Does the Board agree with staff's recommendation to change the definition of short-term lease from "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" to "a lease with a lease term (as defined in paragraph 14) of 24 months or less"?

Respondent #22	**Question 9: Short-term Lease – Definition, Measurement, & Recognition**
Issue:	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.
Staff Analysis:	The BFC of the ED states, "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."
Staff Action or Recommendation	Staff acknowledges the volume of leases required to be tracked by GSA, however staff recommends that the lease term of 24 months or less for a short-term lease proposed in the ED is carried forward into the final standard.
Board Question #11	Does the Board agree with staff's recommendation to carry forward into the final standard the lease term of 24 months or less for a short-term lease proposed in the ED?

Respondent #6	**Question 12: Effective Date**
Issue:	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.
Staff Analysis:	The amended FASB Leases standard was issued as final in February 2016 and as an effective date of periods beginning after 12/31/2018 for most of their preparers and effective dates of 12/31/2019 and 12/31/2020 for other preparers. GASB, which issued its ED in January 2016 and is still deliberating a final standard (expected 5/2017), is also proposing an effective date of periods beginning after 12/31/2018. The Leases ED proposes an effective date of fiscal year 2019 (reporting periods beginning after 9/30/2018). According to the FASAB Three-Year Plan, the Lease standard is expected to be finalized and issued within the first quarter of fiscal year 2018 (August – December 2017). The proposed effective date would give federal entities less that a full year to prepare to implement the amended standards. Additionally, staff believes that implementation guidance will be necessary to assist entities effectively implement the amendments. Staff would like to reconvene the Leases task force and begin efforts towards the issuance of implementation guidance as soon as the standard becomes final.
Staff Action or Recommendation	Staff recommends that the effective date for the amended Lease standard be changed to FY 20 reporting periods beginning after 9/30/2019) in order to give entities adequate time to effectively implement the amended Leases standard.
Board Question #13	Does the Board agreed with staff's recommendation to change the effective date of the amended Leases standard to FY 20?

Respondent #9	**Question 12: Effective Date**
Issue:	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. 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.
Staff Analysis:	
Staff Action or Recommendation	Staff recommends that the effective date for the amended Lease standard be changed to FY 20 reporting periods beginning after 9/30/2019) in order to give entities adequate time to effectively implement the amended Leases standard.
Board Question #13	Does the Board agreed with staff's recommendation to change the effective date of the amended Leases standard to FY 20?

Respondent #11	**Question 12: Effective Date**
Issue:	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.
Staff Analysis:	
Staff Action or Recommendation	Staff recommends that the effective date for the amended Lease standard be changed to FY 20 reporting periods beginning after 9/30/2019) in order to give entities adequate time to effectively implement the amended Leases standard.
Board Question #13	Does the Board agreed with staff's recommendation to change the effective date of the amended Leases standard to FY 20?

Respondent #18	**Question 12: Effective Date**
Issue:	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.
Staff Analysis:	
Staff Action or Recommendation	Staff recommends that the effective date for the amended Lease standard be changed to FY 20 reporting periods beginning after 9/30/2019) in order to give entities adequate time to effectively implement the amended Leases standard.
Board Question #13	Does the Board agreed with staff's recommendation to change the effective date of the amended Leases standard to FY 20?

Respondent #22	**Question 12: Effective Date**
Issue:	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. 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.
Staff Analysis:	
Staff Action or Recommendation	Staff recommends that the effective date for the amended Lease standard be changed to FY 20 reporting periods beginning after 9/30/2019) in order to give entities adequate time to effectively implement the amended Leases standard.
Board Question #13	Does the Board agreed with staff's recommendation to change the effective date of the amended Leases standard to FY 20?

Respondent #25	**Question 12: Effective Date**
Issue:	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.
Staff Analysis:	
Staff Action or Recommendation	Staff recommends that the effective date for the amended Lease standard be changed to FY 20 reporting periods beginning after 9/30/2019) in order to give entities adequate time to effectively implement the amended Leases standard.
Board Question #13	Does the Board agreed with staff's recommendation to change the effective date of the amended Leases standard to FY 20?

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

Respondents

Number	Affiliation
1	Housing and Urban Development - OCFO
2	Health and Human Services - OFCO
3	Social Security Administration – OCFO
4	Department of Homeland Security - OCFO
5	Department of Agriculture - NRCS
6	U.S. Postal Service - OIG
7	Department of Defense - OIG
8	Nuclear Regulatory Commission - OCFO
9	Department of Defense – OCFO
10	Department of Energy – OCFO
11	Broadcasting Board of Governors – OCFO
12	Department of Labor – OIG
13	Department of the Treasury
14	Broadcasting Board of Governors
15	Department of Labor – OCFO
16	Asset Leadership Network
17	Dept. of Justice – JMD – Finance QC&CG
18	U.S. Securities and Exchange Commission
19	Department of the Interior – OCFO
20	National Aeronautics and Space Administration – OCFO
21	Greater Washington Society of CPAs
22	General Services Administration – OCFO
23	Department of Commerce – OCFO
24	KPMG LLP
25	Association of Government Accountants