



November 13, 2019

Memorandum

To: Members of the Committee
From: Ricky A. Perry, Jr., Senior Analyst
Through: Monica R. Valentine, Executive Director
Subject: Staff analysis of comment letters – **Tab D.3¹ MEETING**

OBJECTIVES

1. Staff will provide a high-level summary of public comments on the exposure draft.
2. The committee will discuss public comments on the exposure draft.
3. Discuss next steps

BRIEFING MATERIAL

You may electronically access AAPC briefing materials at <https://fasab.gov/about-aapc/aapc-activities/>. The briefing materials include this memorandum and the following attachment:

Attachment 1 – Staff analysis of comment letters

[Tab D.1 – Exposure draft of conforming amendments TR](#)

[Tab D.2 – Compendium of comment letters](#)

Background

On February 14, 2019, the AAPC released an exposure draft of *Federal Financial Accounting Technical Release XX, Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*, for public comment. The AAPC received 14 comment letters, including comment letters from 12 federal entities, 1 accounting firm, and 1 association.

Two questions for respondents (QFRs) were available to respondents to solicit views regarding specific aspects of the proposed standards, as well as any other feedback.

Staff wishes to thank the individuals and organizations that devoted their time and talent to provide use and insightful feedback and comments.

¹The staff prepares AAPC meeting materials to facilitate discussion of issues at the AAPC 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.

Staff Analysis

The discussion topics and related summaries below are merely to generate committee discussion. Committee members may also wish to refer to the related attachments for more detailed information.

QFR 1: *In light of the recently issued Statement of Federal Financial Accounting Standards (SFFAS) 54, Leases, this TR proposes to clarify existing TRs by providing conforming amendments (see paragraphs 3-10). These conforming amendments acknowledge the SFFAS 54 amendments and further clarify the revised lease accounting standards by eliminating outdated references as a result of the new guidance. TR 10, Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment, and TR 16, Implementation Guidance for Internal Use Software, are being amended because internal use software has specifically been scoped out of SFFAS 54, so the language in these TRs is not consistent with SFFAS 54.*

Do you agree or disagree with the proposed amendments to TR 10 and TR 16? Please provide the rationale for your answer.

9 of 14 respondents agreed (1, 2, 3, 5, 6, 8, 11, 12, and 13)

4 of 14 respondents partially agreed (4, 7, 9, and 10)

1 of 14 respondents disagreed (14)

Discussion Topic 1: Footnote 4 of TR 10 paragraph 3 (Tab D.1 p. 11-12 of 18)

Respondent numbers 7, 10, and 14 noted that the proposed language to amend footnote 4 of paragraph 3 of TR 10 may cause confusion and unintended consequences. (Attachment 1, cells E13:F13, E16:F16, and E20:F21)

Staff agrees with the concerns raised and proposes that the proposed language be modified to help clarify. Staff may implement alternative phrasing that is consistent with that recommended by respondent 14, absent any objections from the committee. Modified language will be proposed and discussed at a subsequent AAPC meeting.

Do committee members agree that the language should be modified in footnote 4 of paragraph 3 (see Tab D.1 p. 11-12 of 18)?

QFR 2: *The TR 16 amendments clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment in accordance with SFFAS 10, Accounting for Internal Use Software, and the lease accounting concepts would not apply.*

Do you agree or disagree with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost? Please provide the rationale for your answer.

9 of 14 respondents agreed (1, 2, 5, 6, 8, 10, 11, 12, and 13)

3 of 14 respondents disagreed (4, 7, and 14)

1 of 14 respondents partially agreed (9)

1 of 14 respondents did not specify an answer, but appeared to generally agree (3)

Discussion Topic 2: Paragraph 26 of TR 16 (Tab D.1 p. 12-13 of 18)

Respondents 4, 7, 9, and 14 observed that software licenses do not meet the definition of property, plant, and equipment, as defined in SFFAS 6, because they are considered an intangible asset. These respondents offered different recommendations and alternative approach proposals for addressing the issue.

Staff agreed with these respondents' technical concerns and shared recommendations with the Board at its August meeting to address software licenses through a Technical Bulletin rather than through conforming amendments to Technical Release 16. The Board agreed with the recommendation. As a result, existing TR 16 guidance for software licenses will be rescinded and replaced with Technical Bulletin guidance.

Do committee members have any questions regarding the revised approach for conforming Technical Release 16 guidance on software licenses to SFFAS 54 by rescinding such guidance and replacing it with a Technical Bulletin?

Next Steps:

Staff will make revisions to the conforming amendments TR based on committee discussions and share these revisions, changes tracked, with the committee at either the May 2020 or August 2020 AAPC meeting.

Do committee members have any questions regarding next steps?

Tab D - QFR 1 Response Summary File

	A	B	C	D	E	F	G
1							
2	In light of the recently issued Statement of Federal Financial Accounting Standards (SFFAS) 54, <i>Leases</i> , this TR proposes to clarify existing TRs by providing conforming amendments (see paragraphs 3 -10). These conforming amendments acknowledge the SFFAS 54 amendments and further clarify the revised lease accounting standards by eliminating outdated references as a result of the new guidance. TR 10, <i>Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment</i> , and TR 16, <i>Implementation Guidance for Internal Use Software</i> , are being amended because internal use software has specifically been scoped out of SFFAS 54, so the language in these TRs is not consistent with SFFAS 54.						
3							
4	Do you agree or disagree with the proposed amendments to TR 10 and TR 16? Please provide the rationale for your answer.						
5							
6	Resp. No.	Resp. Type	Entity / Name	Response	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
7	1	Federal Entity (auditor)	Nuclear Regulatory Commission OIG	Y	None	The proposed amendment establishes a needed change to no longer use outdated references but instead update TRs with revised references for lease accounting standards.	
8	2	Federal Entity (preparer)	Social Security Administration	Y	None	We agree with the proposed amendments to [TR 10 and 16], as the amendments ensure both TRs agree to the terminology, provisions, and guidance as provided in [SFFAS 54].	
9	3	Federal Entity (preparer)	HHS, Administration for Children and Families	Y	None	Upon review of the [exposure draft], ACF has no comments to the documentation.	
10	4	Federal Entity (preparer)	Department of Defense	Partially	None	We agree that TR 10 and TR 16 need to be updated to address references to lease terminology and lease criteria that have been amended by SFFAS 54. We disagree with some of the revised language in the TR 16 amendment as denoted in our response to Q2 below.	See staff analysis of Resp No. 4 and 7 at QFR 2 tab.
11	5	Federal Entity (preparer)	Department of Homeland Security	Y	None	The Department agrees. The proposed amendments to TR 10 provide clearer guidance for federal real property that should be reviewed for asbestos cleanup costs to include leased real property that is recognized as the result of SFFAS 54. The proposed amendments to TR 16 provide further guidance in evaluating software licenses against Property, Plant, and Equipment criteria in SFFAS 6	
12	6	Federal Entity (preparer)	Department of Commerce	Y	None	The Department agrees with the proposed amendments to TR 10 and TR 16. The Department believes it is appropriate to eliminate references to "operating" and "capital" leases, as the terms were eliminated with the issuance of SFFAS 54. The amendments eliminate the discrepancies between the standards and provide a consistent application of the proposed standards.	
13	7	Accounting Firm	KPMG	Partially	We recommend that the AAPC revise the proposed language as follows: "For the purpose of this document, real property is defined as federal facilities and installed equipment; and includes 1) real property assets underlying a lessor's lease recognized as a result of leases (see SFFAS 54, <i>Leases</i>)..." [For TR 16 recommendations, see QFR 2 tab.]	We believe the proposed language to amend footnote 4 of paragraph 3 of TR 10 may cause confusion because it does not use the same terminology for leased assets as SFFAS 54. [For TR 16 response and rationale, see QFR 2 tab.]	Staff agrees with the concern and will propose alternative footnote 4 language to the AAPC for its review. Staff and the AAPC will determine the specific edit to footnote 4 at a later time.
14	8	Federal Entity (preparer)	Bureau of Engraving and Printing	Y	None	We have no concerns and are in agreement is eliminating "capital leases" and just calling them "leases".	
15	9	Federal Entity (preparer)	Department of the Treasury	Partially	For Par. 5 and Par. 6 of the proposed amendments to TR16 to be effective, the FASAB Omnibus Exposure Draft, dated February 22, 2019, would need to update SFFAS 6 Paragraph 17 to include intangible assets.	Treasury generally agrees with the proposed amendments to TR 10 and TR 16, as existing guidance from the recently updated SFFAS 54 did not address the issue of Internal Use Software adequately. The revised language that "the license should be evaluated against PP&E criteria in SFFAS 6 to determine if it meets the definition of PP&E" is problematic. SFFAS 6 as revised under the FASAB Omnibus Exposure Draft dated February 22, 2019, continues to indicate that PP&E consists only of "tangible assets". Software licenses are not tangible assets, and therefore could never meet the capitalization criteria under the standards.	Staff agrees with the concern regarding the definition of tangible assets. As a result, staff has received approval from the Board to address this matter through a Technical Bulletin. (See also, QFR 2 tab)
16	10	Association Organization	GWSCPA	Partially	It may be beneficial to specify in paragraph 3 which type of lease(s) under SFFAS 54 would be within the scope of TR 10.	The FISC agrees with amending TR 10 and TR 16 to conform to the provisions of SFFAS 54. However, the proposed amendment to paragraph 3 implies, for example, that a leased real property recognized as a result of a short-term lease may meet the definition of a federal real property and therefore be within the scope of TR 10. If this is not the intention of the proposed amendment, it may be beneficial to specify in paragraph 3 which type of lease(s) under SFFAS 54 would be within the scope of TR 10.	Staff agrees. Staff will undertake efforts to consider opportunities to clarify the proposed footnote amendment to enhance clarity.
17	11	Federal Entity (preparer)	Department of the Interior	Y		Leases that transfer ownership at the end of the lease term are treated as purchases of assets under SFFAS 54, rather than capital leases under the old standards. As capital leases no longer exist in FASAB standards, references to capital leases in TR 10 and TR16 should be eliminated to be consistent with the language in SFFAS 54.	

Tab D - QFR 1 Response Summary File

	A	B	C	D	E	F	G
6	Resp. No.	Resp. Type	Entity / Name	Response	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
18	12	Federal Entity (preparer)	National Aeronautics and Space Administration	Y		NASA agrees with the proposed changes ... Specifically, the proposed changes are to modify the language to conform to the new definitions of leases in SFFAS 54. These proposed changes are necessary in order to uniformly establish consistency in definitions across FASAB guidance. The establishment of such uniformity will assist preparers of financial statements in more accurately implementing accounting guidance.	
19	13	Federal Entity (preparer)	Department of Veterans Affairs	Y		The amendment to TR 10 removes the reference to capital leases which makes it consistent with SFFAS 54. The amendment to TR 16 removes the requirement to evaluate software licenses against the lease criteria in SFFAS 5 paragraphs which were rescinded under publication of SFFAS 54.	
20	14	Federal Entity (preparer)	General Services Administration	N	<p>With the potential for multiple interpretations, the proposed changes to Footnote 4 should be reworded for clarity.</p> <p>We suggest the following wording to replace the part 1) in the footnote 4:</p> <p>"1) real property recognized as a result of leases that will transfer ownership (see SFFAS 54, Leases, paragraph 25) and leasehold improvements;"</p> <p>From experiences with GSA's real property portfolio, we would also expect that instances of asbestos liabilities related to leasehold improvements would prove to be exceedingly rare. We would suggest that the AAPC poll agencies with real property to determine if including leasehold improvement discussions with this language has merit and appears to have sufficient benefit to outweigh the cost of regular processes and controls to evaluate such assets for potential asbestos liability.</p>	<p>We are very concerned with the wording shown in Paragraph 4 of the ED, specifically for the proposed change to Footnote 4 of Paragraph 3 in TR10, regarding the revised definition of Federal real property. The existing TR 10 language being removed was specific to include "capital leases" as Federal real property subject to consideration for reporting of asbestos liabilities. The revised wording of, "...real property is defined as federal facilities and installed equipment; and includes 1) real property recognized as a result of leases (see SFFAS 54, Leases) and leasehold improvements;" appears to greatly expand the population of leases that must be considered for potential disclosure of asbestos liabilities. It is also not sufficiently clear whether the terminology, "real property recognized as a result of leases" is intended to include right-to-use (RTU) assets capitalized under SFFAS 54 or is limited to real property recognized in accordance with Paragraph 25 of SFFAS 54 (leases that will transfer ownership).</p> <p>We believe very strongly that RTU assets should be excluded from consideration as real property in the application of asbestos liability reporting requirements. In all instances that we are aware, and in general, retirement obligations for asbestos removal is borne by the owner of real property. We also recognize that leases have the potential to create exposure to asbestos liability risk to a lessee in instances where transfer of ownership at a point in time is stated in the lease, or a purchase option is exercised. We believe that it is only in these two instances that a lessee should be required to consider recognition of possible or probable asbestos liabilities for leased assets.</p> <p>If RTU assets were included as real property in the assessment processes for asbestos liability reporting, this would result in a substantial increase in effort expended by GSA, both for initial implementation and in the long-term. We would expect to not find any instances where GSA is at risk for and have to report asbestos liabilities with RTU assets. However, the exercise of evaluating all of our thousands of existing leases, and annual monitoring of thousands of new leases and lease modifications for consideration under asbestos reporting requirements would create an excessive burden with no expected impact on GSA financial reporting. This compares to the very small population (less than 10) of leases that today meet the criteria as capital leases and are included in considerations for asbestos liability reporting.</p> <p>Our concern with the existing wording proposed in the ED is further complicated by nuances in the potential interpretations of the wording. While SFFAS 54 does indicate that leased assets are to be disclosed separately from other PP&E assets, SFFAS 54 does not definitively declare whether RTU assets are expected to also be grouped with other assets and considered an asset of the category they are associate with (i.e. buildings, vehicles, equipment, land, etc.). Accordingly, it is unclear from SFFAS 54 whether an RTU asset from a lease of real property is considered to be real property or a separate and distinct RTU asset. The distinction in this wording impacts the interpretation of the proposed change to Footnote 4. If an RTU asset for a lease of real property is not actually deemed to be real property, than the language used in the Footnote 4 of, "...1) real property recognized..." would seem to exclude RTU assets and limit potential applicability of asbestos reporting to assets acquired under SFFAS 54 paragraph 25, and leasehold improvements. With the potential for multiple interpretations, the proposed changes to Footnote 4 should be reworded for clarity.</p>	<p>Agree with all concerns and recommendations expressed. Will share concern with AAPC and provide members with suggested alternative wording for their consideration.</p>
21							
22							

Tab D - QFR 2 Response Summary File

	A	B	C	D	E	F	G
1	The TR 16 amendments clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment in accordance with SFFAS 10, Accounting for Internal Use Software, and the lease accounting concepts would not apply.						
2							
3	Do you agree or disagree with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost? Please provide the rationale for your answer.						
4							
5							
6	Resp. No.	Resp. Type	Entity / Name	Response	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
7	1	Federal Entity (auditor)	Nuclear Regulatory Commission OIG	Y	None	Agree, but only if the internal use software meets the criteria for general property. Software that is not owned by the reporting entity should follow lease accounting concepts.	
8	2	Federal Entity (preparer)	Social Security Administration	Y	None	We agree with removing the references to leases in TR 16, as such references are no longer applicable due to the issuance of SFFAS 54. As stated in SFFAS 10, "This Standard requires the capitalization of the cost of internal use software whether it is commercial of the shelf, contractor developed or internally developed" and "that such entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment." As TRs are a mechanism to provide guidance for applying existing Statements and Interpretations but may not promulgate new accounting standards, it is appropriate to update the verbiage to conform to SFFAS 54.	
9	3	Federal Entity (preparer)	HHS, Administration for Children and Families	NR	None	Upon review of the [exposure draft], ACF has no comments to the documentation.	
10	4	Federal Entity (preparer)	Department of Defense	N	If FASAB's revision to paragraph 26 of TR 16 does not address software licenses in more detail than as currently proposed in the subject ED, DoD would like to request that FASAB issue clearer guidance on Internal Use Software (IUS), specifically software licenses. The additional guidance will improve DoD financial reporting and contribute to meeting the Federal financial reporting objectives. SFFAS 54 is not applicable to software licenses and SFFAS 10 is actually silent on the specific recognition of software licenses, with the exception of the language in the SFFAS 10 basis for conclusions; therefore, consistent with GAAP hierarchy, Federal agencies are to look first to the FASAB accounting standards for guidance.	The revised paragraph 26 of TR 16 requires a software license to be evaluated against the [PP&E] criteria in SFFAS 6 and not in accordance with SFFAS 10. SFFAS 10 does not address the recognition of software licenses other than the language in the [Basis For Conclusion], which indicates that software licenses are similar to leases of general PP&E and that the Board believes that it would be appropriate for the federal entity to apply lease accounting concepts and the entity's existing policy for capitalization thresholds and for bulk purchases to licenses. [4.1] To evaluate a software license against the PP&E criteria in SFFAS 6 does not appear to fit the purpose of SFFAS 6, which is to provide accounting standards for Federally owned PP&E; deferred maintenance; and cleanup costs, as stated in paragraph 1 of SFFAS 6. Furthermore, PP&E consists of tangible assets as defined in paragraph 17 of SFFAS 6. Accordingly, we are questioning why the PP&E criteria was selected as the preferred option rather than alternative criteria, since software licenses are not federally owned property nor are they tangible assets as is stated in SFFAS 6. [4.2] The TR 16 amendments do not address the treatment of software license if the license does not meet the definition of PP&E. We recommend addressing software license that does not meet the definition of PP&E in the proposed revision to paragraph 26 of TR 16. [4.3] Given that ownership is a factor in SFFAS 6 in defining what is considered to be PP&E, we believe that if the software license is not a perpetual license where the license is purchased for a one-time lump payment upfront, or paid over a period-of-time and can be used indefinitely, then the software license should be considered as a subscription or term license versus PP&E because ownership is not a consideration. As any term or subscription software license where the agency will pay yearly/monthly subscription amount(s) to use the software, giving them the ability to have the latest version of the software, but not establishing ownership, should be accounted for as an expense in the Statement of Net Cost. Therefore, the payments for a non-perpetual software license fee should be expensed. An example would be on a straight-line basis over the term of the license, which could result in a prepayment or liability (if the amounts are not payable on a straight-line basis over the license term). Our basis for this approach is based on paragraphs 57-61 (Advances and Prepayments) of [SFFAS 1]. We recommend that the proposed revision to paragraph 26 of TR 16 be modified to reflect this approach. [4.4]	Staff agrees with the concerns and rationale expressed and the overall recommendation provided by the respondent. As a result, staff recommended to the Board that software licenses be addressed in a Technical Bulletin and that the guidance reflected in the proposed revision to paragraph 26 be removed from the final TR. The Board agreed with this approach. The revised paragraph 26 of TR 16 will likely refer readers to the Technical Bulletin. As a result, the issuance of the final TR will likely coincide with the issuance of the final Technical Bulletin.
11	5	Federal Entity (preparer)	Department of Homeland Security	Y	None	The Department agrees. The proposed amendments to TR 16 clarify the capitalization of internal use software cost. The amendments appropriately point out that the capital or operating lease criteria no longer apply and the entity should apply its existing policy for capitalization thresholds to determine if software licenses should be capitalized or expensed in accordance with SFFAS 6.	

Tab D - QFR 2 Response Summary File

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6	Resp. No.	Resp. Type	Entity / Name	Response	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
12	6	Federal Entity (preparer)	Department of Commerce	Y	None	The Department agrees with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost. The Department believes it is appropriate for federal entities to follow SFFAS 10 with regard to accounting for internal use software, including software licenses.	
13	7	Accounting Firm	KPMG	N	<p>We recommend the AAPC amend paragraphs 26 and 27 of TR 16 as follows:</p> <p>26. <i>Software License: If the term of a software license is 2 years or more, an entity should evaluate the software license against paragraph 23 of SFFAS 6 to determine if the license meets the characteristics of general PP&E. If the software license meets the characteristics of general PP&E, the software license should be capitalized.</i></p> <p>26a. <i>The entity should determine the measurement of the liability for the software license as the present value of the minimum payments during the term, excluding that portion of the payments representing executory costs to be paid by the software provider, discounted at the applicable Treasury rate. The entity should apply judgment in determining the portion of the payments representing executory costs.</i></p> <p>26b. <i>For capitalized software licenses, the entity should recognize an asset initially measured at its cost, which includes the initial measurement of the liability.</i></p> <p>26c. <i>Upon implementation of SFFAS 54, the entity should assume the term for unexpired software licenses began as of the beginning of the period of implementation and follow the guidance in paragraphs 26, 26a, and 26b.</i></p> <p>27. <i>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.</i></p>	<p>The proposed amended paragraph 26 of TR 16 states: "...the license should be evaluated against the PP&E criteria in SFFAS 6 to determine if it meets the definition of PP&E." Paragraph 17 of SFFAS 6 provides such criteria and definition: "Property, plant, and equipment consists of tangible assets [emphasis added], including land, that meet the following criteria..." We believe referencing the definition of PP&E could cause diversity in practice because there is judgment as to whether software is a tangible asset. We recommend the Board instead require a software license to be accounted for as PP&E when it meets the characteristics of general PP&E in SFFAS 6 paragraph 23 (which are based on use), without requiring the license to meet the definition (and related criteria) of PP&E in paragraph 17 of SFFAS 6.</p> <p>Assuming that a software license meets the definition of PP&E (including the related criteria comprising that definition), or the characteristics of general PP&E as we are proposing, the exposure draft instructs a reporting entity to "apply its existing policy for capitalization thresholds..." In order to apply a capitalization threshold to any asset, a reporting entity needs to measure the cost of the asset. Neither SFFAS 6 nor the exposure draft provide guidance as to how to measure the cost of a software license. Furthermore, neither SFFAS 6 nor the exposure draft provide guidance on recognition and measurement of the related liability for the future payments to be made under the terms of the software license agreement.</p> <p>We also note that the TR does not provide transition guidance for software licenses upon implementation of SFFAS 54.</p>	<p>Staff agrees. As such, staff is developing an alternative approach for addressing software licenses through use of a Technical Bulletin.</p> <p>Staff will consider the respondent's views regarding capitalization thresholds during the development of the Technical Bulletin.</p>
14	8	Federal Entity (preparer)	Bureau of Engraving and Printing	Y		As long as the criteria is met for general PPE, we are in agreement. Software as we know can be very expensive and it is welcoming that it is being recognized in a way that makes financial sense. In para 10 page 7, if one could further clarify the cloud computing arrangement it would be helpful since those arrangements can be more complex than what can be simplified in the paragraph.	Staff will document and share the respondent's feedback regarding cloud computing arrangements.
15	9	Federal Entity (preparer)	Department of the Treasury	Partially	<p>We suggest the Amendment to update or add instruction specifically related to the software licensing scenario as discussed above, in order to provide clearer accounting treatment procedures for entities in similar situation.</p>	<p>Treasury generally agrees with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost. However we still have the issues of (1) inconsistency of cross-references among SFFAS 5, 6, 10 & 54, (2) how to recognize lease liability for software licenses, as to offset the capitalized lease payments at the inception of the agreement with the vendors, and (3) further clarification on the cloud computing agreement in Par. 10 page 7.</p> <p>(1) With the understanding that the revised language is focused on TR 16; [SFFAS 10] paragraph 67 states: "The Board believes that it would be appropriate for the federal entity to apply lease accounting concepts and the entity's existing policy for capitalization thresholds and for bulk purchases to licenses. FN19 See [SFFAS 5] "Capital Leases," pars. 43-46, and [SFFAS 6] par. 20, for federal accounting standards for leases." The related paragraphs in SFFAS Nos. 5 and 6 now reference SFFAS 54 and it specifically excludes Software Licenses. The wording in SFFAS 10 should be updated as well, or referenced to TR 16 for consistency to improve.</p>	Item 1: Staff agrees.
16						<p>(2) In addition, the revised language does not adequately indicate how an agency would value the purchase of perpetual software license with 2 or more years of periodic payments, where a perpetual license is granted at the end of the term of the payments. If the purchase agreement meets the capitalization criteria, the proposed language in TR 16 allows an agency to use judgment to determine what to capitalize.</p> <p>There is no clear guidance as to whether an agency would capitalize all the payments at once, the net present value of the payments, or capitalize yearly costs on a yearly basis. Furthermore, if an agency capitalizes all the payments at the inception of the agreement, or capitalizes the net present value of the payments, there is no guidance as to whether an agency would recognize a liability, and what type of liability, to offset the capitalization of the asset. Since there can be no lease liability for software licenses, there is no other guidance as to what the offsetting liability would be.</p>	Item 2: Staff agrees with these concerns and will consider them when developing the proposed Technical Bulletin.

Tab D - QFR 2 Response Summary File

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6	Resp. No.	Resp. Type	Entity / Name	Response	Respondent Recommendation	Respondent Rationale	Staff Response / Preliminary Analysis
17						(3) In Par. 10 page 7 of the TR 16, it would be helpful if the guidance language could further clarify the cloud computing arrangement since those arrangements can be more complex than what can be simplified in the paragraph.	Agree. Staff will document and share the respondent's feedback regarding cloud computing arrangements; such issues are, however, out of scope for this particular project.
18	10	Association Organization	GWSCPA	Y		The FISC agrees with the proposed amendments to TR 16 for the reasons stated in the ED.	
19	11	Federal Entity (preparer)	Department of the Interior	Y		Agree. As IUS are scoped out from SFFAS 54 and any software license meeting the capitalization threshold is considered PP&E, not capital leases.	
20	12	Federal Entity (preparer)	National Aeronautics and Space Administration	Y		NASA agrees with the proposed amendments to TR 16 to clarify the capitalization of internal use software. Pursuant to [SFFAC 1], Federal financial reporting should assist report users in evaluating the costs of the reporting entity and the manner in which those efforts and accomplishments have been financed, including the costs of providing specific activities and the composition of, and changes in those costs. As such, all methods of providing internal use software (IUS) within a federal entity, including leasing, should be included in PP&E capitalization requirements for IUS when requisite thresholds have been met. Likewise, TR 16 discusses the rapid changes related to software development practices within the Federal environment and IUS: such changes include more reliance on leasing of IUS. Thus, in order for the federal entity to capture the full cost of software operations, capitalization of leased software which meets requisite thresholds will allow the allocation of the cost of the leased IUS to periods over which the asset has been used.	
21	13	Federal Entity (preparer)	Department of Veterans Affairs	Y		The amendment to TR 16 removes the requirement to evaluate software licenses against lease criteria. VA agrees internal use software with a term of two years or more and periodic payments meeting the Agency's definition of property, plant, and equipment should be evaluated for capitalization in accordance with SFFAS 6, not SFFAS 54.	
22	14	Federal Entity (preparer)	General Services Administration	N	Accordingly, it is recommended that the wording in this section be clarified to only require management to make these estimates where there is available market information or available pricing data from sellers to use as a basis for the estimates. We further recommend language be added that if no such reliable basis exists, licenses should be expensed and not included in SFFAS 10 capitalization. We also request a sentence be added to paragraph 27 of TR 16 to specifically state that entities should not apply concepts such as prescribed in SFFAS 54 to impute or derive asset values for capitalization purposes of SFFAS 10. Accordingly, a license that may involve payment streams would only include amounts subject to capitalization if a contract/agreement clearly identifies financing as an element of the award, or if there are upfront amounts due for the right to use the software and the upfront costs are clearly identified as a portion of the payment stream.	We disagree with some of the wording used for the proposed changes to paragraph 27 of TR 16, specifically the sentence, "Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs." This sentence reads as a directive requirement that agencies must make estimates of the component costs of a license (initial cost, maintenance, enhancements, etc.), and use estimates of such elements to capitalize appropriate portions in accordance with SFFAS 10. In many instance, there is no reasonable basis management would have to make such estimates, especially when software is sold under one lump-sum price, or pricing requires recurring payments (annually or other), but it is clear that maintenance and enhancements are included with purchase. There are instances where distinct costing/pricing of the components is not information sellers make available to the public, or the components are not even available to procure separately.	Staff will consider these views when drafting the Technical Bulletin on software licenses (see above).