



December 4, 2019

Memorandum

To: Members of the Board

From: Ricky A. Perry, Jr., Senior Analyst

Through: Monica R. Valentine, Executive Director

Subject: Discussion and balloting of SFFAS XX, *Deferral of the Effective Date of SFFAS 54*, exposure document – **Tab A**¹

MEMBER ACTION REQUESTED:

Electronic ballots are requested prior to or during the December 17 meeting.

MEETING OBJECTIVES

1. Recap member ballot responses received to-date and approve any minor pre-ballot edits.
2. Discuss comment period length.
3. Cast ballots. Members will have an opportunity to cast their ballot during the Board meeting.

BRIEFING MATERIAL

You may electronically access all of the briefing material at <https://fasab.gov/board-activities/briefing-materials/>.

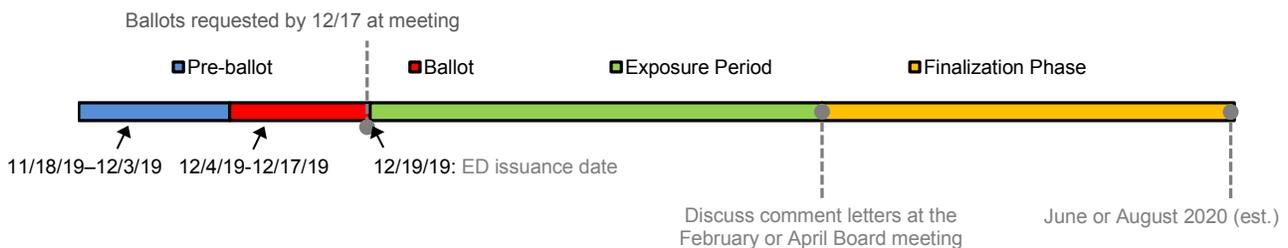
The briefing materials include this memorandum and the following attachments:

Attachment 1 – Ballot draft of exposure document – clean copy

Attachment 2 – Ballot draft of exposure document – with pre-ballot edits tracked

Attachment 3 – Ballot memorandum

TIMELINE



¹The 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

At the October 2019 meeting, Board members instructed staff to develop a draft proposal and circulate it for Board review. It was agreed that staff would make an effort to pre-ballot and possibly ballot the proposal prior to the meeting.

Staff received 26 edits/comments on the working draft from Board members, all of which resulted in minor changes. Staff addressed these edits/comments and released a pre-ballot draft for Board review on November 18.

Staff received 12 edits/comments on the pre-ballot draft during the pre-ballot phase between November 18 and December 3, all of which resulted in minor changes.

Staff analysis

The pre-ballot edits and changes to address any pre-ballot phase comments are marked in **Attachment 2** and summarized as follows:

- 11 minor edits, including:
 - Re-ordered listing at paragraph A7 and executive summary
 - Edits to paragraphs A3 and A5 to enhance readability
- Added paragraphs 3 and 5 to defer effective date of omnibus amendments from SFFAS 57 that relate to SFFAS 54
- Staff did not flag any pre-ballot edits as candidates likely to require further discussion

Comment period length

Staff recommends a 45-day comment period rather than a 90-day comment period. This would result in the deadline for comments being moved up from March 19, 2020, to January 31, 2020. It would enable staff to return to the Board table for the February meeting to discuss comment letters. Contingent upon the results of the public comment period, remaining Board deliberations, and sponsor reviews, the Board would then be able to issue a final pronouncement as early as June 2020. A 90-day comment period would require staff to return at the April meeting and not issue a final pronouncement until at least August 2020.

BOARD QUESTIONS:

Do members wish to discuss any of the tracked pre-ballot edits or other matters?

Do members have any questions or concerns regarding the staff-recommended 45-day comment period?

Next steps:

Staff will make final changes, if any, and issue the exposure document for public comment and a related press release on December 19. Staff will undertake efforts to inform stakeholders of the opportunity to submit public comments and encourage reporting entities to monitor the status of the proposal.

Staff will return to the Board table to discuss comment letters with the Board and any resulting updates to the proposal. Contingent upon the results of the public comment period, remaining Board deliberations, and sponsor reviews, the Board may be able to issue a final pronouncement as early as June 2020.



Federal Accounting Standards Advisory Board

**DEFERRAL OF THE EFFECTIVE
DATE OF SFFAS 54, *LEASES***

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by January 31, 2020

December 19, 2019

BALLOT VERSION

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.

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Additional background information and other items of interest are available at www.fasab.gov:

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- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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Contact Us

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Federal Accounting Standards Advisory Board

December 19, 2019

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

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Deferral of the Effective Date of SFFAS 54, Leases*. A question for your consideration appears on page 4, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose. Responses are requested by January 31, 2020.

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We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

[SIGNATURE TO BE ADDED AFTER BALLOTING]

George A. Scott
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing to defer the effective date for Statement of Federal Financial Accounting Standards (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 two years. Under this proposal, the requirements of SFFAS 54 would become effective for reporting periods beginning after September 30, 2022. Early adoption would not be permitted, which is an existing stipulation under SFFAS 54 that would remain unchanged under this proposal.

Under this proposal, federal reporting entities would continue their current lease accounting practices until SFFAS 54 becomes effective; they would not follow the Financial Accounting Standards Board's (FASB) new lease standards (Accounting Standards Codification – *Leases - Topic 842*) nor would they follow the Government Accounting Standards Board's (GASB) new lease standards (GASB Statement No. 87, *Leases*).¹ Rather, reporting entities would continue to follow the current FASAB guidance that addresses lease transactions. This comprises paragraphs 43-46 of SFFAS 5 and paragraphs 20 and 29 of SFFAS 6. These paragraphs are not rescinded by SFFAS 54 until SFFAS 54 becomes effective. If the current standards are silent on an issue, the reporting entity should review SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, to identify prevalent practices consistent with SFFAS 5 and 6. SFFAS 5 and SFFAS 6 were originally developed from the FASB lease standards in effect at the time (Accounting Standards Codification – *Leases - Topic 840*).

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

On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained an understanding of the implementation challenges encountered by federal reporting entities in their efforts to implement the requirements of SFFAS 54. The challenges are significant for reporting entities with large lease portfolios.

The following factors (not all-inclusive) are examples of significant challenges encountered when implementing SFFAS 54:

1. The development and acquisition of information technology, data elements, core systems requirements, and internal controls at the government-wide and component reporting entity levels;
2. Resource limitations, coupled with extensive preparation activities necessary for implementation; and
3. The need for the federal financial accounting and reporting community to receive, understand, and apply forthcoming implementation guidance due to the extensive

¹Except for a limited number of reporting entities permitted to follow FASB generally accepted accounting principles (see SFFAS 34 paragraphs 9-12). Those entities would adopt any new lease accounting standards promulgated by FASB as appropriate.

complexity and breadth of implementation issues identified by the leases implementation guidance task force.

In response to these challenges, the Board is proposing a two-year deferral of the effective date of SFFAS 54. The deferral will provide the Board, the Accounting and Auditing Policy Committee (AAPC), and FASAB staff the time necessary to develop and issue implementation guidance. It would also provide federal reporting entities an appropriate amount of time to complete ongoing implementation activities and consider such guidance.

BALLOT VERSION

TABLE OF CONTENTS

Executive Summary	1
Questions for Respondents	4
Proposed Standards	5
Scope.....	5
Amendments to SFFAS 54.....	5
Amendments to SFFAS 57.....	5
Effective Date.....	5
Appendix A: Basis for Conclusions	6
Appendix B: Abbreviations	8

BALLOT VERSION

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the question below. In addition to the question below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals 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 are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to 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 regarding this proposal.

The question below is available in a Word file for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Monica R. Valentine, Executive Director
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441 G Street, NW
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Washington, D.C. 20548

All responses are requested by January 31, 2020.

- Q1. Do you agree with the proposed two-year deferral of the effective date of SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*? The new effective date would provide for full implementation of SFFAS 54 for reporting periods beginning after September 30, 2022. Please explain the reasons for your position in as much detail as possible.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), 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*.
2. This Statement amends SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*, to defer the effective date of implementation by two years.
3. This Statement also amends SFFAS 57, *Omnibus Amendments 2019*, to defer the effective date of certain conforming amendments contained therein related to SFFAS 54.

AMENDMENTS TO SFFAS 54

4. Paragraph 98 of SFFAS 54 is amended as follows:
 98. The requirements of this Statement are effective for reporting periods beginning after September 30, ~~2020~~2022. Early adoption is not permitted.

AMENDMENTS TO SFFAS 57

5. Paragraph 15 of SFFAS 57 is amended as follows:
 15. Paragraphs 3 through 8, 11, and 12 of this Statement are effective for reporting periods beginning after September 30, ~~2020~~2022. Early adoption is not permitted.

EFFECTIVE DATE

6. The requirements of this Statement are effective upon issuance.

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.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. In April 2018, the Board issued Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*. SFFAS 54 provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports (GPFFR) and include appropriate disclosures. Such standards were set to go into effect for reporting periods beginning after September 30, 2020.
- A2. Since the issuance of SFFAS 54, the Accounting and Auditing Policy Committee (AAPC) initiated a project to develop implementation guidance for the federal financial accounting and reporting community on applying the requirements of SFFAS 54.² As part of this effort, the Board and AAPC engaged a task force to obtain feedback from stakeholders and constituents and monitor implementation efforts across the federal government.

SUMMARY OF OUTREACH AND CONCLUSIONS FOR PROPOSED DEFERRAL

- A3. The Board believes that SFFAS 54 offers appropriate guidance for the accounting and financial reporting of leases for federal entities and maintains the views expressed in the basis for conclusions to SFFAS 54 regarding costs and benefits. Implementation of SFFAS 54 will ensure that GPFFR users receive useful information regarding the resources and obligations that support federal programs and activities and monitor federal investments in property, plant, and equipment, and lease financing activities.
- A4. Notwithstanding such benefits, the Board believes this proposed deferral would be a prudent response commensurate to the identified implementation challenges, costs, and constraints and allow reporting entities to reliably implement SFFAS 54.

²The AAPC is a permanent committee established by the Board to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature. The AAPC works under the general oversight of the Board.

- A5. The Board reviewed and discussed implementation issues in August and October of 2019 by reviewing Board and task force briefing materials and receiving feedback and status reports from task force panelists and technical staff.
- A6. Through these efforts, the Board gained an understanding of the nature and magnitude of implementation challenges encountered by federal reporting entities. The Board found that challenges were significant for reporting entities with large lease portfolios.
- A7. The following factors (not all-inclusive) are examples of significant challenges encountered when implementing SFFAS 54:
- a. The development and acquisition of information technology, data elements, core systems requirements, and internal controls at the government-wide and component reporting entity levels;
 - b. Resource limitations, coupled with extensive preparation activities necessary for implementation; and
 - c. The need for the federal financial accounting and reporting community to receive, understand, and apply forthcoming implementation guidance due to the extensive complexity and breadth of implementation issues identified by the leases implementation guidance task force.
- A8. In response to these challenges, the Board is proposing a two-year deferral of the effective date of SFFAS 54. The deferral would provide the Board, the AAPC, and FASAB staff the time necessary to develop and issue implementation guidance to assist federal reporting entities. It also provides preparers with additional time to complete implementation activities and consider implementation guidance issued in advance of the deferred effective date.
- A9. The Board expects the AAPC to issue implementation guidance during fiscal year 2021.
- A10. Based on the feedback obtained by the Board and its implementation monitoring activities, Board members agreed that a one-year deferral would not provide sufficient time for the Board, AAPC, technical staff, and federal reporting entities to complete implementation preparation and readiness activities. Therefore, the Board agreed that proposing a two-year deferral was appropriate.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
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
GASB	Government Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
SFFAS	Statement of Federal Financial Accounting Standards

BALLOT VERSION

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Gila J. Bronner

Robert F. Dacey

Sallyanne Harper

Patrick McNamee

Terry K. Patton

Graylin E. Smith

Timothy F. Soltis

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DEFERRAL OF THE EFFECTIVE
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Effective Date.....	5
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- A2. Since the issuance of SFFAS 54, the Accounting and Auditing Policy Committee (AAPC) initiated a project to develop implementation guidance for the federal financial accounting and reporting community on applying the requirements of SFFAS 54.² As part of this effort, the Board and AAPC engaged a task force to obtain feedback from stakeholders and constituents and monitor implementation efforts across the federal government.

SUMMARY OF OUTREACH AND CONCLUSIONS FOR PROPOSED DEFERRAL

- A3. The Board believes that SFFAS 54 offers appropriate guidance for the accounting and financial reporting of leases for federal entities and maintains the views expressed in the basis for conclusions to SFFAS 54 regarding costs and benefits. Implementation of SFFAS 54 will ensure [that](#) GPFRR users receive useful information regarding the resources and obligations ~~used to fulfill~~ [that support federal](#) programs and activities and monitor [federal](#) investments in property, plant, and equipment, and lease financing activities.
- A4. Notwithstanding such benefits, the Board believes this proposed deferral would be a prudent response commensurate to [legitimate](#) ~~the identified~~ implementation challenges, costs, and constraints and allow reporting entities to reliably implement SFFAS 54.

²The AAPC is a permanent committee established by the Board to assist the federal government in improving financial reporting by timely identifying, discussing, and recommending solutions to accounting issues within the framework of existing authoritative literature. The AAPC works under the general oversight of the Board.

- A5. The Board reviewed and discussed implementation issues in August and October of 2019 by reviewing Board and task force briefing materials ~~and task force meeting minutes~~ and receiving feedback and; status reports, ~~and briefing materials~~ from task force panelists and technical staff.
- A6. Through these efforts, the Board gained an understanding of the nature and magnitude of implementation challenges encountered by federal reporting entities. The Board found that challenges were significant for reporting entities with large lease portfolios.
- A7. The following factors (not all-inclusive) affect the severity ~~are examples~~ of significant challenges encountered when implementing SFFAS 54:
- a. The development and acquisition of information technology, data elements, core systems requirements, and internal controls at the government-wide and component reporting entity levels; ~~Resource limitations, coupled with the nature and extent of preparation activities necessary for implementation;~~
 - ~~b. Resource limitations, coupled with extensive preparation activities necessary for implementation; The development or acquisition of:~~
 - ~~e. b. sufficient information technology, data elements, and core systems requirements at the government-wide and component reporting entity levels and~~
 - ~~d. c. The~~ A need for the federal financial accounting and reporting community to receive, understand, and apply forthcoming implementation guidance due to the extensive complexity and breadth of implementation issues identified by the leases implementation guidance task force.
- A8. In response to these challenges, the Board is proposing a two-year deferral of the effective date of SFFAS 54. The deferral would provide the Board, the AAPC, and FASAB staff the time necessary to develop and issue implementation guidance to assist federal reporting entities. It also provides preparers with additional time to complete implementation activities and consider implementation guidance issued in advance of the deferred effective date.
- A9. The Board expects the AAPC to issue implementation guidance during fiscal year 2021.
- A10. Based on the feedback obtained by the Board and its implementation monitoring activities, Board members agreed that a one-year deferral would not provide sufficient time for the Board, AAPC, technical staff, and federal reporting entities to complete implementation preparation and readiness activities. Therefore, the Board agreed that proposing a two-year deferral was appropriate.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
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
GASB	Government Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
SFFAS	Statement of Federal Financial Accounting Standards

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Federal Accounting Standards Advisory Board

Date: December 4, 2019
 To: Members of the Board
 From: Monica R. Valentine, Executive Director
 Subject: **Ballot for Exposure Draft: *Deferral of the Effective Date of SFFAS 54, Leases***

The following is a ballot for the exposure draft entitled *Deferral of the Effective Date of SFFAS 54, Leases*. Please enter your name in the space provided below and indicate your approval or disapproval. Please email the ballot to me at valentinem@fasab.gov with a copy to perryra@fasab.gov. Alternatively, you may submit your ballot in-person during the December 17 meeting or fax the signed ballot to (202) 512-7366.

Ballots are due by December 17. Members not responding by December 23 will be considered to have abstained. If you wish to express an alternative view or any changes that may warrant a revised pre-ballot, please notify staff immediately and provide your alternative view as soon as possible but no later than December 11. Any alternative views received will be circulated to other members as soon as possible so that they may consider the views of the member. When staff receives five affirmative votes, we will publish the exposure draft unless a member has notified us that he or she is preparing an alternative view.

Board member:

Date:

I approve the subject SFFAS

I do not approve the subject SFFAS