



Federal Accounting Standards Advisory Board

---

# OMNIBUS AMENDMENTS ON LEASES-RELATED TOPICS

**Statement of Federal Financial Accounting Standards XX**

**Exposure Draft**

Written comments are requested by February XX, 2021

November XX, 2020

**Working draft – Comments are not requested on this draft**

## 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.

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

Additional background information and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

### Copyright Information

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

### Contact Us

Federal Accounting Standards Advisory Board  
441 G Street, NW  
Suite 1155  
Washington, D.C. 20548  
Telephone (202) 512-7350  
Fax (202) 512-7366  
[www.fasab.gov](http://www.fasab.gov)



## Federal Accounting Standards Advisory Board

November XX, 2020

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

Your comments on the following exposure drafts are requested:

- Proposed Federal Financial Accounting Technical Release, *Implementation Guidance for Leases*
- Proposed Statement of Federal Financial Accounting Standards, *Omnibus Amendments on Leases-Related Topics*

We recommend providing one set of comments on these two interrelated proposals. You are welcome to comment on any aspect of these proposals. If you do not agree with specific matters or proposals, your responses will be most helpful to the Committee and the Board if you explain the reasons for your positions, the paragraph number(s) and/or topic areas of the proposals that are related to your positions, and any alternatives you propose.

Responses are requested by February XX, 2021.

All comments received by the Committee and the Board are considered public information. Those comments will be posted to the FASAB website and included in the projects' public records.

Please provide your comments by email to [fasab@fasab.gov](mailto:fasab@fasab.gov). We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at (202) 512-7350 or [fasab@fasab.gov](mailto:fasab@fasab.gov) to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for these exposure drafts. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

Monica R. Valentine  
AAPC Chair

George A. Scott  
FASAB Chair

## EXECUTIVE SUMMARY

---

### WHAT IS THE BOARD PROPOSING?

---

These amendments would provide greater clarity to aspects of SFFAS 54 and ensure consistency throughout the standard.

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

---

Provide a plain English explanation of what problem the Board is solving, what improvements will result and how this improvement helps meet objectives. The executive summary should not exceed two pages. [Style code is Normal.]

### MATERIALITY

---

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

## TABLE OF CONTENTS

---

<b>Executive Summary</b> .....	<b>3</b>
<b>Questions for Respondents</b> .....	<b>3</b>
<b>Proposed Standards</b> .....	<b>4</b>
SCOPE .....	4
AMENDMENTS TO SFFAS 54 .....	4
AMENDMENTS TO SFFAS 6 and SFFAS 57 .....	8
EFFECTIVE DATE.....	9
<b>Appendix A: Basis for Conclusions</b> .....	<b>10</b>
<b>Appendix B: Illustrations</b> .....	Error! Bookmark not defined.
<b>Appendix C: Abbreviations</b> .....	<b>12</b>
<b>Appendix D: Glossary</b> .....	<b>13</b>

DRAFT

## QUESTIONS FOR RESPONDENTS

---

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) and Accounting and Auditing Policy Committee (AAPC or “the Committee”) encourage you to become familiar with the proposed Statement and Technical Release (TR) before responding to the questions in this section.

In addition to the questions below, the Board and the Committee also welcome your comments on other aspects of the proposed Statement and TR. Because these proposals may be further modified before a final Statement and TR are issued, it is important that you comment on aspects that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated. All responses are requested by February XX, 2021.

The Board and the Committee believe that these proposals would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with the proposed Statement. In responding, please consider the expected benefits and challenges, and communicate any concerns that you may have regarding these proposals.

To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the Board and/or the Committee should consider. Please include references to the related paragraph numbers in your responses.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to submit your comment letter via email, please contact 202-512-7350.

- QFR 1.** Are there specific aspects of the proposed Statement and/or TR that you disagree with? If so, please explain the reasons for your positions, the paragraph number(s), and/or topic area(s) of the proposals that are related to your positions, and any alternatives you propose and the authoritative basis for such alternatives.
- QFR 2.** Are you aware of any implementation issues that are not addressed in the proposed Statement and/or TR? If so, please provide examples of the issues, paragraph number(s), and/or topic area(s) related to the issues, and any potential solutions you propose.
- QFR 3.** Are there specific aspects of these proposals that you favor? Please indicate if you support aspects of the Statement and TR proposals that are not otherwise identified in your responses to QFR 1 and QFR 2.

## 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*; SFFAS 6, *Accounting for Property, Plant, and Equipment*; and SFFAS 57, *Omnibus Amendments 2019*, by providing necessary technical corrections and clarifications.

### AMENDMENTS TO SFFAS 54

3. Paragraph 5.a of SFFAS 54 is amended as follows:

5.a accounting for leases of assets prior to the commencement of the lease term, such as during ~~under~~-construction periods or <sup>2A</sup>

FN 2A – For leases other than short-term leases and intragovernmental leases, the lessee would account for payments prior to commencement of the lease term as advances paid in contemplation of the future receipt of the lease asset. The lessor would account for receipts prior to commencement of the lease term as advances received. These advances would be accounted for in a manner consistent with SFFAS 1, *Accounting for Selected Assets and Liabilities*, par. 57-61, prior to the lease commencement date. Such advances and prepayments would be considered assets of the lessee and liabilities of the lessor. At lease commencement, the lessee would then reclassify the asset and include it in the measurement of the lease asset in accordance with SFFAS 54 par. 49, while the lessor would reclassify the advances received as unearned revenue in accordance with par. 64.b.

4. Paragraph 20 of SFFAS 54 is amended as follows:

20. At the commencement of a lease term, lessors and lessees should assess all factors relevant to the likelihood that the lessee or lessor will exercise options identified in paragraphs 15-19, whether these factors are contract or agreement based, underlying asset based, market based, or federal specific. The assessment often will require the consideration of a combination of these interrelated factors. Examples of factors to consider include, but are not limited to, the following: ...

5. Paragraph 21.d of SFFAS 54 is added as follows:

21. Lessors and lessees should reassess the lease term only if one or more of the following events occur:

[21.d A lease modification that amends the noncancelable period and results in remeasurement in accordance with paragraphs 85-86.](#)

6. Paragraph 23 of SFFAS 54 is amended as follows:

23. A lessee should recognize short-term lease payments as an expense based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts. The lessee should recognize an asset if payments are made in advance of the reporting period to which they relate or a liability for rent due if payments are made subsequent to that reporting period. The lessee should recognize lease incentives and lease concessions (for example, a rent holiday period of one or more months free) as reductions of lease rental expense on a straight-line basis over the lease term. [Rental increases or rental decreases that are not lease concessions should be recognized in the period of the increase/decrease.](#)<sup>4A</sup>

[FN 4A – See par. 10 for the definition of lease concessions.](#)

7. Paragraph 24 of SFFAS 54 is amended as follows:

24. A lessor should recognize short-term lease payments as revenue based on the payment provisions of the contract or agreement and standards regarding recognition of accounts receivable and other related amounts. The lessor should recognize a liability if payments are received in advance of the reporting period to which they relate or an asset for rent due if payments are received subsequent to that reporting period. The lessor should recognize any lease incentive or concession (for example, a rent holiday period with one or more months free) as reductions of lease rental income on a straight-line basis over the lease term. [Rental increases or rental decreases that are not lease concessions, should be recognized in the period of the increase/decrease.](#)<sup>4B</sup>

[FN 4B – Ibid.](#)

8. Paragraph 29 of SFFAS 54 is amended as follows:

29. Rental increases/[decreases](#) may be fixed in the lease and take place with the passage of time (for example, be based on such factors as anticipated increases/[decreases](#) in costs or anticipated appreciation/[depreciation](#) in property values, but the amount of the increase/[decrease](#) is specified in the lease) or they may be contingent on future events.

9. Paragraph 30 of SFFAS 54 is amended as follows:

30. Rental increases/[decreases](#) may also be variable and based on future changes in specific economic factors on which lease payments are based, for example, future sales or usage activity levels or future inflation/[deflation](#) (tied to a specific economic indicator where the specific amount of the change is not known).

10. Paragraph 31 of SFFAS 54 is amended as follows:

31. ~~R~~ental increases or rental decreases that are not lease concessions, a lessee should be recognized ~~the expense~~ in the period of the increase/decrease.<sup>5A</sup>

FN 5A – See par. 10.

11. Paragraph 37.b of SFFAS 54 is amended as follows:

37.b Annual lease expense in total and by major underlying asset leased PP&E category.

12. Paragraph 38.a of SFFAS 54 is amended as follows:

38.a A general description of significant leases, ~~including a breakdown of the number of leases with federally owned assets and privately owned assets~~

13. Paragraph 39 of SFFAS 54 is amended as follows:

39. At the commencement of the lease term, a lessee should recognize a lease liability and a PP&E-right-to-use lease asset (hereinafter referred to as the lease asset), except as provided in paragraphs 22-24 (short-term leases), paragraph 25 (contracts or agreements that transfer ownership), and paragraphs 26-38 (intragovernmental leases).

14. Paragraphs 52-53 of SFFAS 54 are amended as follows:

52. The lease asset generally should be adjusted by the same amount when the corresponding-lease liability is remeasured based on paragraph 44-48. However, if this change reduces the carrying value of the lease asset to zero, any remaining amount should be reported in the statement of net cost as a gain. Changes arising from amendments to a lease contract or agreement should be accounted for under the provisions of paragraphs 80-86 for lease modifications and terminations.

53. Leased assets ~~classified as PP&E~~ are subject to SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*. The presence of impairment indicators (described in paragraphs 8-15 of SFFAS 44) with respect to the underlying asset may result in a change in the manner or duration of use of the lessee's rights to obtain and control access to economic benefits and services derived from the underlying asset and the application of SFFAS 44. The change in the manner or duration of use of the underlying asset is an indicator that the right of use lease asset may be impaired (SFFAS 44, par.12). ~~If the underlying asset is impaired, it~~ If impaired, the lease asset should be reduced first for any change in the corresponding lease liability resulting from remeasurement under paragraphs 44-48 of SFFAS 54, or modifications or terminations under paragraphs 80-86 of SFFAS 54. Any remaining amount should be recognized as an impairment loss. Paragraphs 16-25 of SFFAS 44 provide criteria for testing for impairment, along with recognizing, reporting, and disclosing impairment losses. This guidance should be analogized to lease assets to the extent that impairment losses exceed any reduction to the lease liability and lease asset that may stem from the impairment.

FN 9—SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use, par. 18-25.

15. Paragraph 54 of SFFAS 54 is amended as follows:

54. Lessees should disclose the following regarding lease activities (which may be grouped for purposes of disclosure), other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases: ...

16. Paragraph 54.a.ii of SFFAS 54 is amended as follows:

54.a.ii the existence, terms, and conditions of residual value guarantees provided by the lessee and whether or not these are included in the measurement of the lease liability

17. Paragraph 54.b of SFFAS 54 is amended as follows:

54.b The total amount of lease assets and the related accumulated amortization, to be disclosed separately from ~~other~~ PP&E assets

18. Paragraph 59 of SFFAS 54 is amended as follows:

59. The future lease payments to be received should be discounted using the rate the lessor charges the lessee, which may be the interest rate implicit in the lease. Lessors are not required to apply imputed interest but may do so as a means of determining the interest rate implicit in the lease. If the interest rate cannot be reasonably estimated by the lessor, the lessor's estimated incremental borrowing rate should be used.<sup>9A</sup>

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

19. Paragraph 65 of SFFAS 54 is amended as follows:

65. A lessor subsequently should ~~amortize-recognize~~ the deferred revenue, recognizing it as earned revenue, in a systematic and rational manner over the term of the lease. The deferred revenue generally should be adjusted using the same amount as the change resulting from the remeasurement of the lease receivable as discussed in paragraphs 61–63. However, if the change reduces the carrying value of the deferred revenue to zero, any remaining amount should be reported in the statement of net cost as a loss.

20. Paragraph 67 of SFFAS 54 is amended as follows:

67. Lessors should disclose the following regarding lease activities (which may be grouped for purposes of disclosure), other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases: ...

21. Paragraph 69.b of SFFAS 54 is amended as follows:

69. If applicable, the financial report of the U.S. Government should disclose the following regarding its lease activities:

b. The total amount of lease assets, and the related accumulated amortization, to be disclosed separately from ~~other~~ PP&E assets ...

22. Paragraph 71 of SFFAS 54 is amended as follows:

71. Lease incentives and lease concessions reduce the amount that a lessee is required to pay for a lease. For leases other than short-term leases and intragovernmental leases, ~~Lease~~ incentives and lease concessions that provide payments to, or on behalf of, a lessee at or before the commencement of a lease term are included in initial measurement by directly reducing the amount of the lease asset (par. 49). Lease incentive and lease concession payments to be provided after the commencement of the lease term should be accounted for by lessees and lessors as reductions of lease payments for the periods in which the incentive or concession payments will be provided. Those payments should be measured by lessees consistently with the lessee's lease liability (par. 40-48) and by lessors consistently with the lessor's lease receivable (par. 56-63). Accordingly, lease incentive and lease concession payments to be provided after the commencement of the lease term are included in initial measurement and any remeasurement if they are fixed or fixed in substance, whereas variable or contingent lease incentive or lease concession payments are not included in initial measurement. Lessor improvements that are made to or on behalf of the lessee without additional cost to the lessee should be accounted for by the lessee and the lessor consistent with other lease incentives and lease concessions. As leasehold improvements are paid for (financed) by the lessee, leasehold improvements would not be considered a lease incentive or concession received from the lessor.<sup>10A</sup>

[FN 10A - The treatment of lease incentives and lease concessions is addressed in par. 23-24 for short-term leases and par. 32-33 for intragovernmental leases.](#)

## AMENDMENTS TO SFFAS 6 and SFFAS 57

---

23. Paragraphs 7 and 8 of SFFAS 57, *Omnibus Amendments 2019*, are rescinded.

24. Paragraph 15 of SFFAS 57 is amended as follows:

15. Paragraphs 3 through ~~6~~8, 11, and 12 of this Statement are effective for reporting periods beginning after September 30, 2023. Early adoption is not permitted.

25. Paragraph 18 of SFFAS 6, *Accounting for Property, Plant, and Equipment*, is amended as follows:

18. Property, plant, and equipment also includes:

- ~~assets acquired through capital leases (See paragraph 20), including leasehold improvements;~~

- Property owned by the reporting entity in the hands of [or leased to](#) others (e.g., state and local governments, colleges and universities, or Federal contractors); and
- Land rights<sup>18</sup>

FN 18 - "Land rights" are interests and privileges held by the entity in land owned by others, such as ~~leaseholds~~, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

26. Paragraph 19A is added to SFFAS 6 as follows:

19A. Property, plant, and equipment also excludes lease assets and land rights that meet the definition of a lease under SFFAS 54, *Leases*.

#### EFFECTIVE DATE

---

27. The requirements of this Statement are effective for reporting periods beginning after September 30, 2023.

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

## APPENDIX A: BASIS FOR CONCLUSIONS

---

This appendix discusses some factors considered significant by 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. Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, was issued in April 2018 with an effective date for reporting periods beginning after September 30, 2020. The effective date was later amended by SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, to reporting periods beginning after September 30, 2023.
- A2. In August 2019, the FASAB and the Accounting and Auditing Policy Committee (AAPC or “the Committee”) commenced projects on their technical agendas to identify implementation challenges and develop guidance related to SFFAS 54.
- A3. The AAPC assembled a large group of task force members—over 100 stakeholders—as a means of crowdsourcing the identification and analysis of a wide breadth of potential SFFAS 54 implementation topics. The task force provided input to project staff by:
- Reviewing project staff’s content analysis of questions and answers contained in Governmental Accounting Standards Board (GASB) *Implementation Guide 2019-3, Leases*, and determining the extent to which each question and answer contained therein was applicable in the federal context.
  - Suggesting implementation topics not addressed in GASB 2019-3.
  - Identifying and discussing potential omnibus SFFAS amendment candidates that may need to be issued in tandem with the implementation guidance for purposes of providing clarification or closing loopholes. Such candidates were then relayed to the FASAB for their consideration.
  - Providing editorial and technical comments and illustrative examples on draft versions of implementation guidance questions and answers developed by staff. The working drafts were developed and reviewed, by topic area, over the course of several task force meetings organized by project staff.
- A4. As a result of the prior collaboration between the FASAB and the GASB on SFFAS 54 and *Statement No. 87, Leases*, respectively, staff met with GASB staff during the development of the proposed guidance to discuss implementation issues and approaches for developing

consistent guidance in areas where the related standards and implementation issues are aligned. As a result of this collaboration, similar wording appears in some sections of this proposal and analogous GASB implementation guidance.<sup>1</sup>

A5. Due to the high volume of implementation guidance, project staff provided drafts of proposed questions and answers to the AAPC and the Board in piecemeal for their review and input prior to their respective actions to release the exposure draft for public comment.

A6. Pending

DRAFT

---

<sup>1</sup>The GASB material is copyrighted by the Financial Accounting Foundation, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116 and was used with permission.

## APPENDIX B: ABBREVIATIONS

---

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GPFRR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

DRAFT

APPENDIX C: GLOSSARY

---

DRAFT

**FASAB Members**

George A. Scott, Chair

R. Scott Bell

Gila J. Bronner

Robert F. Dacey

Sallyanne Harper

Patrick McNamee

Terry K. Patton

Graylin E. Smith

Timothy F. Soltis

**FASAB Staff**

Monica R. Valentine, Executive Director

Ricky A. Perry, Jr., Senior Analyst

Christi M. Dewhirst, Fellow

**Federal Accounting Standards Advisory Board**

441 G Street, NW  
Suite 1155  
Washington, D.C. 20548  
Telephone (202) 512-7350  
Fax (202) 512-7366  
[www.fasab.gov](http://www.fasab.gov)