



**June 9, 2020**

Memorandum

To: Members of the Board  
From: Ricky A. Perry, Jr., Senior Analyst  
Christi M. Dewhirst, FASAB Fellow  
Through: Monica R. Valentine, Executive Director  
Subject: Leases Omnibus - Amendments Candidates – **Tab D**<sup>1</sup>

**MEMBER ACTION REQUESTED:**

Staff requests preliminary responses to Board questions by June 22<sup>nd</sup>.

**MEETING OBJECTIVES**

1. Review and discuss omnibus amendments candidates.
2. Review and discuss staff recommendation for joint exposure of omnibus amendments and the technical release for the implementation guidance.
3. Discuss next steps proposed by staff.

**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** – Working Draft: *SFFAS XX, Omnibus Amendments, Leases*

**Attachment 2** – Leases project plan

Development Phase

The Leases Omnibus amendments project is in the development phase where the Board deliberates to develop an exposure draft to clarify aspects of SFFAS 54.

<sup>1</sup>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

As part of the leases implementation guidance project, staff has identified issues that cannot be addressed in a technical release. A technical release may provide guidance for applying existing Statements but may not promulgate new accounting standards. The issues noted require modifications to the existing Statements to provide clarity and address areas of concern amongst the task force.

Staff thanks the leases implementation task force and the AAPC for their assistance in identifying these issues.

## Staff Analysis of Omnibus Amendments Candidates

Staff recommends the following proposed omnibus amendments. See Attachment 1 for the working draft. Proposed edits are highlighted in [blue text](#) to facilitate Board review.

1. **SFFAS 54, Scope section** – *Staff proposes rescinding paragraph 5.a of SFFAS 54 which scopes out leases under construction.*

At the June 2017 Board meeting, the Board unanimously agreed to add assets under construction to the listing of scope exclusions. Staff believes that the intent of this exclusion was to clarify when the lease term begins. It appears that the Board was trying to clarify that although a lease is awarded at an earlier time, the lease term does not begin until occupancy. GASB does not exclude leases of assets under construction (GASB 87, par. 8).

While staff agrees with the basis for the lease term beginning at occupancy, in retrospect, paragraph 5.a has caused confusion about how to recognize payments made to the lessor during the construction period. Staff believes that paragraph 14 is sufficient to address any ambiguity about the start of the lease term. Furthermore, paragraph 5.a seems to contradict paragraph 49.b which addresses lease payments made to the lessor at or before the commencement of the lease term. This would typically be during the construction period.

This proposed amendment, along with implementation guidance under development, will serve to clarify, but not alter, the accounting treatment of assets under construction by allowing paragraph 49.b to address this issue. This change will also better align SFFAS 54 with GASB 87.

2. **SFFAS 54, Lease Term section** – *Staff proposes edits to paragraph 19.a.*

In determining the lease term, paragraph 19.a excludes periods for which both the lessee and lessor have the ability to terminate or extend. The main purpose of this was to exclude month-to-month holdovers from the lease term. This exclusion aligns with GASB 87, paragraph 12.

However, members of the task force recommended that paragraph 19.a be reworded to close a loophole for evergreen leases that is subject to exploitation.

Evergreen leases are defined as leases that automatically renew at the end of the original term for another term of the same length, often on a month-to-month basis, without any action by the parties.

The task force noted that reporting entities could structure long term leases in such a way as to set up monthly terms that allow either party to cancel at the end of each month while including steep termination penalties that would in effect render the options to terminate moot by making it so cost prohibitive that neither party would ever exercise it. The way paragraph 19.a is written now, termination penalties and other factors are precluded from being considered in assessing the lease terms for such scenarios. This may result in reporting entities classifying these leases as short-term leases based on a bright line rule that does not reflect the economic substance of the lease agreements.

The objective of the proposed changes is to deter reporting entities from structuring contracts in such a way that avoids reporting right-to-use lease assets and long-term liabilities on their financial statements.

The edits proposed maintain the ability to exclude the majority of holdover periods from the lease term, as originally intended, but also close the loophole to ensure that reporting entities record leases in accordance with the intent of the Statement.

3. **SFFAS 54, Lease Term section** – *In paragraph 20, staff proposes a clarifying edit to address the assessment of both lessee and lessor options.*

Paragraph 20 currently states, “At the commencement of a lease term, lessors and lessees should assess all factors relevant to the likelihood that the lessee will exercise options identified in paragraph 15-19...” However, paragraphs 15-19 address both lessee and lessor options to be considered. Excluding the analysis of lessor options seems to be an accidental omission in paragraph 20. GASB 87, paragraph 14, includes the assessment of both lessee and lessor options in its analogous paragraph.

The proposed edit would clarify that both lessee and lessor options should be assessed in paragraph 20. This aligns with the other paragraphs in the lease term section of SFFAS 54 and with GASB 87, paragraph 14.

4. **SFFAS 54 Short-term Leases section** – *Staff proposes adding language step rent increases/decreases that mirrors paragraph 31 for intragovernmental leases.*

It is our understanding that the Board intended short-term leases and intragovernmental leases to be accounted for in a similar fashion. However, paragraphs 23 and 24, which address short-term leases, do not address step rent increases/decreases; whereas paragraph 31, which addresses intragovernmental leases, does. Staff is proposing that rental increases/decreases be addressed in both the short-term lease section and the intragovernmental section. The basis for the proposal to include rental decreases is under item 5 below.

If paragraphs 23 and 24 of SFFAS 54 remain silent on rent increases/decreases, reporting entities would not know whether to recognize step rent increases/decreases in the periods they occur or to straight-line them over the lease term.

This amendment would correct an inadvertent omission on short-term leases and bring it in alignment with the treatment of intragovernmental leases in a manner consistent with what staff believes to have been the original intent of the Board.

5. **SFFAS 54, Short Term and Intragovernmental Leases sections** – *In paragraphs 29-31 (and 23-24 above), staff proposes including step rent decreases along with step rent increases.*

Rent decreases were not previously addressed in the Statement, but lease concessions were. Staff believes there is a need to differentiate between reduced rent offered as part of a lease concession and rental decreases that are based on the anticipated decreased value or service capacity of the underlying asset or the deflation expected in the market.

Staff is proposing that step rent decreases be recognized as a reduction of expense in the period in which the decrease occurs. This aligns with the treatment prescribed for step rent increases. Rent reductions that are offered as a concession to entice a lessee to sign a lease should be straight-lined over the lease term in accordance with paragraph 33. This distinction will also be further clarified in the implementation guidance technical release under development.

6. **SFFAS 54, Intragovernmental Leases section** – *In paragraph 31, staff proposes addressing the lessor treatment of rental increases/decreases, in addition to the lessee treatment.*

Currently, paragraph 31 only addresses the lessee and does not address how a lessor should handle intragovernmental rental increases/decreases. This would likely lead to intragovernmental variances if lessees and lessors were to apply the guidance differently.

It appears to be the original intent of the Board to require lessees and lessors to follow similar accounting requirements for intragovernmental leases. Staff is proposing edits to paragraph 31 to require lessors to treat rental increases/decreases consistently with lessees. This will resolve the potential for variances and provide clear guidance to both lessees and lessors.

7. **SFFAS 54, Disclosures for Intragovernmental Leases sub-section** – *In paragraph 38.a, staff proposes changing the term “privately-owned” to “non-federally owned.”*

The terms “federally-owned” and “privately-owned” were meant to identify the population of federal assets and non-federal assets being leased by a reporting entity. However, the term “privately-owned” assets caused some concern for members of the task force. The members were concerned that leases with

state/local governments might not be disclosed properly because they are not privately-owned. The task force requested the term “non-federally owned” to be used instead. This would provide clarity and ensure that entities disclosures are stated accurately.

This edit serves to replace a term that could be misinterpreted while still aligning with the original intent of the Board for the disclosure.

8. **SFFAS 54, Lessee Recognition/Measurement section** – *In paragraph 39, staff proposes an edit to clarify the type of asset being recognized.*

The term “PP&E” right-to-use lease asset was originally used to indicate that the lease is a right-to-use PP&E. However, the term “PP&E” is used in a manner that will cause confusion regarding the nature and characteristics of lease assets.

Staff is proposing an edit to strike the term PP&E here in order to clarify that lease assets are right-to-use lease assets, distinct from the underlying PP&E from which the lease asset and related economic benefits and services are derived. This clarity is needed to ensure proper classification of lease assets.

9. **SFFAS 54, Lease Asset sub-section** – *In paragraph 53, staff proposes an edit to clarify the type of asset being recognized.*

The term “PP&E” is used in a manner that causes confusion regarding the nature and characteristics of right-to-use lease assets. Lease assets are not PP&E; they represent the right to access and control economic benefits and services derived from underlying assets; the underlying assets are PP&E, whereas lease assets are intangible in nature.

The original phrasing was with an intent of alluding to the underlying asset; however, making such a reference is not necessary in these locations and has resulted in misunderstandings surrounding the nature of lease assets and certain task force members conflating lease assets and PP&E assets. The proposed edits better align with GASB 87, paragraph 34 (screenshot below) as well.

34. The presence of impairment indicators (described in paragraph 9 of Statement 42) with respect to the underlying asset may result in a change in the manner or duration of use of the lessee’s right-to-use asset. Such a change in the manner or duration of use of the lessee’s right-to-use asset may indicate that the service utility of that lease asset is impaired. The length of time during which the lessee cannot use the underlying asset, or is limited to using it in a different manner, should be compared to its previously expected manner and duration of use to determine whether there is a significant decline in service utility of the lease asset. If a lease asset is impaired, the amount reported for the lease asset should be reduced first for any change in the corresponding lease liability. Any remaining amount should be recognized as an impairment.

**10. SFFAS 54, Lessee and Lessor Disclosures sub-sections** – *In paragraphs 54 and 67, staff proposes edits to clarify that the disclosure requirements in these paragraphs pertain to lease activities other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases.*

As originally phrased, the guidance appeared to indicate non-applicability to short-term leases only. This could cause confusion and lead to inconsistent disclosures. For example, it would prevent overlap and confusion regarding disclosure requirements for intragovernmental leases, which are addressed in paragraphs 37 and 38; not in paragraphs 54 and 67. The proposed edits align with the original intent of the Board and will better clarify the leases that should be disclosed.

**11. SFFAS 54, Lessee Disclosures sub-section** – *In paragraph 54.a.ii, staff proposes an edit clarifying what should be disclosed for residual value guarantees.*

The way the paragraph is currently written, a lessee would disclose all residual value guarantees provided by the lessee, even if the residual value guarantee was already included in the measurement of the lease liability. This could lead to duplication of data.

Staff is proposing an edit clarifying that only residual value guarantees not included in the measurement of the lease liability should be disclosed. This aligns with GASB 87, paragraph 37.a (2) (screenshot below).

37. A lessee should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases:

a. A general description of its leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability

**12. SFFAS 6 and SFFAS 57** – *Staff also proposes clarifying amendments to clarify the nature and characteristics of lease assets.*

SFFAS 57, paragraphs 7 and 8 indicate that lease assets are PP&E (see screenshot below). Staff recommends rescinding those paragraphs of SFFAS 57 to avoid confusion, and replacing them with alternative edits to SFFAS 6 to better clarify the delineation between lease assets in PP&E in SFFAS 6.

SFFAS 57 excerpt below:

7. This paragraph amends paragraph 18 of SFFAS 6 by revising the first bullet to remove a reference to capital leases:

18. Property, plant, and equipment also includes:

- ~~assets acquired through capital recognized as a result of leases (see SFFAS 54: Leases, for guidance regarding leases and leasehold improvements to be recognized as PP&E assets).~~ (See paragraph 20), including leasehold improvements;
- property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and
- land rights.<sup>[footnote omitted]</sup>

8. The revised paragraph 18 of SFFAS 6 is as follows:

18. Property, plant, and equipment also includes:

- assets recognized as a result of leases (see SFFAS 54: Leases, for guidance regarding leases and leasehold improvements to be recognized as PP&E assets);
- property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or Federal contractors); and
- land rights.<sup>[footnote omitted]</sup>

The proposed amendments (see Attachment 1) would facilitate implementation by clarifying the expected treatment for land rights that meet the definition of a lease. They would clarify the scope and applicability of SFFAS 6 and SFFAS 54.

In that same vein, staff's proposed amendments would also serve as a logical transitional step leading up to any intangibles project in the event that the Board elects to remove intangible land and water rights that do not meet the definition of a lease from SFFAS 6. Based on the Board's recent approaches to the land and leases projects, it is staff's belief that the Board intended for land rights that meet the definition of a lease to be accounted for under SFFAS 54, whereas land rights that do not meet the definition of a lease would follow other existing SFFAS. These proposed amendments are consistent with that intent.

It is staff's view that the intangibles project may ultimately serve as a more appropriate authoritative source for land and water rights that do not meet the definition of a lease; however, additional research and deliberations are necessary in that area. The Board need not deliberate on that at this time. Rather, staff is simply pointing out that these omnibus amendments provide flexibility to go down that path,

should the research process lead to that recommendation and decision.

Ultimately, the categories of capital assets could be better clarified as these projects continue, with the scope and applicability of SFFAS 6 potentially transitioning away from including intangible easements, land rights, water rights, timber rights, and the like, and focusing more on capital assets that are purely property and equipment.

#### **BOARD QUESTIONS:**

**Question 1:** Are there matters members wish to discuss in response to staff's proposed amendments?

**Question 2:** Are there any other matters that members would like for staff to research for potential inclusion in the omnibus amendments?

#### Staff Analysis of Joint Exposure Proposal

During the course of developing the implementation guidance for SFFAS 54, it became apparent to staff that some issues could not be addressed in a technical release. A technical release may provide guidance for applying existing Statements but may not promulgate new accounting standards. The issues noted require modifications to the existing Statement to provide clarity and address areas that have raised concerns amongst preparers.

As such, these issues are being included as omnibus amendments. Moreover, there are questions in the technical release that correspond to the revisions created by the omnibus amendments.

#### Staff Recommendation of Joint Exposure Proposal

As the omnibus amendments and the technical release are both a product of the leases implementation project, staff recommends that they be released for public comment in a joint exposure draft. This would be the Board's first joint exposure draft, but other standard-setters have taken a similar approach at times. This proposal will conform to all existing due process requirements for a Statement and a Technical Release, with the related pronouncements being separately processed, finalized, and issued following the exposure period.

#### Basis for Staff Recommendation

Staff recommends this approach because the documents are interrelated and reviewing one without the other could cause confusion amongst respondents. A joint exposure draft would: (a) reduce duplication of work and comments by respondents, (b) facilitate informed and integrated responses, and (c) streamline staff's analysis of stakeholder feedback on the proposals.

**BOARD QUESTION:**

**Question 3:** Does the Board agree with staff's recommendation to release a joint exposure draft for the omnibus amendments and technical release implementation guidance?

Next Steps

Staff will continue to draft the implementation guidance with input and review from the task force and the AAPC. As the implementation guidance continues to develop, more candidates for the omnibus amendments may be discovered and will be incorporated. Staff will also update the working draft, including the basis for conclusions, based on today's discussions.

The leases implementation project plan remains on schedule (see Attachment 2). The next 3-5 months will be a critical phase of the project in determining the timing of the ultimate release of the implementation guidance and omnibus amendments. Staff will continue to keep the Board apprised of the status of the project and any significant set-backs and risks.

**BOARD QUESTION:**

**Question 4:** Does this Board wish to discuss staff's proposed next steps or provide additional considerations for staff as we move forward with the leases implementation project?

**BOARD QUESTIONS (ALL):**

**Question 1:** Are there matters members wish to discuss in response to staff's proposed amendments?

**Question 2:** Are there any other matters that members would like for staff to research for potential inclusion in the omnibus amendments?

**Question 3:** Does the Board agree with staff's recommendation to release a joint exposure draft for the omnibus amendments and technical release implementation guidance?

**Question 4:** Does this Board wish to discuss staff's proposed next steps or provide additional considerations for staff as we move forward with the leases implementation project?

**MEMBER FEEDBACK**

Please provide feedback to Mr. Perry and Ms. Dewhirst at [PerryRA@fasab.gov](mailto:PerryRA@fasab.gov) and [gsa-fasab.detail@gsa.gov](mailto:gsa-fasab.detail@gsa.gov) with a cc to Ms. Valentine at [ValentineM@fasab.gov](mailto:ValentineM@fasab.gov), by **June 22, 2020**.



Federal Accounting Standards Advisory Board

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# OMNIBUS AMENDMENTS, *LEASES*

Statement of Federal Financial Accounting Standards **XX**

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

**Working Draft – Comments Are Not Requested on This Draft**

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## 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](#)

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### Contact Us

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## Federal Accounting Standards Advisory Board

### ISSUE DATE

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 **Omnibus Amendments, Leases**. Specific questions for your consideration appear on page X, 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 **DUE DATE**.

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

Mail delivery is delayed by screening procedures. Please provide your comments by email to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to email your responses, we encourage you to fax comments to (202) 512-7366. Alternatively, you may mail your comments to:

Monica R. Valentine, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW  
Suite 1155  
Washington, D.C. 20548

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. **or** A public hearing has been scheduled at 9:00 a.m. on Month Day, Year, in Room 7C13 at the Government Accountability Office, 441 G Street, NW, Washington, D.C. 20548.

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,

George A. Scott  
Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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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?

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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

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

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DRAFT

## QUESTIONS FOR RESPONDENTS

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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 questions below. In addition to the questions 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 implementing this proposal.

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 respond by email, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Monica R. Valentine, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW  
Suite 1155  
Washington, D.C. 20548

All responses are requested by [insert date].

Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.

Q2. New Question

## PROPOSED STANDARDS

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### SCOPE

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1. This Statement applies to federal entities that present general purpose federal financial reports (GPFRRs), 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

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3. Paragraph 5.a of SFFAS 54 is removed:

~~5.a leases of assets under construction or~~

4. Paragraph 19.a of SFFAS 54 is amended as follows:

19.a Periods for which both the lessee and lessor (1) have an option to terminate the lease without permission from the other party or (2) have to agree to extend are cancelable periods and are typically excluded from the lease term. For example, month-to-month lease holdovers, also referred to as rolling lease extensions, or any lease that continues into a holdover period until a new contract or agreement is signed would be considered cancelable if both the lessee and the lessor have an option to terminate. Therefore, either could cancel the lease at any time. These holdover periods are cancelable periods and should be ~~excluded from~~ considered, along with economic incentives and disincentives of the lessor and lessee and other relevant factors, when determining the lease term. If significant evidence exists at the commencement of the lease term based on other relevant factors that additional cancelable periods would be misleading to exclude from the lease term, including such periods would be appropriate. However, such evidence may not be sufficient or reliable at the commencement of the lease and thus would not result in the inclusion of cancelable periods in the lease term. Lessees and lessors are not required under paragraph 21 to reassess the lease term unless an event specified in paragraph 21 occurs.

FN 4 - SFFAS 1, *Accounting for Selected Assets and Liabilities*, applies to any related accounts payable or accounts receivable amounts.

5. 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:

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. If the lease provides for rental increases or decreases, a lessee should recognize the expense or reduction thereof in the period of the increase/decrease. 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.

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. If the lease provides for rental increases or decreases, a lessor should recognize the income or reduction thereof in the period of the increase/decrease. 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.

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. If the lease provides for rental increases [or decreases](#), a lessee should recognize the expense [or reduction thereof](#) in the period of the increase/[decrease, and a lessor should recognize the income or reduction thereof in the period of the increase/decrease](#).

11. 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 non-federally owned](#) assets

12. 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 an [intangible 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).

13. Paragraph 53 of SFFAS 54 is amended as follows:

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 paragraph 12 of SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use) with respect to the underlying asset may result in a change in the manner or duration of use of the lessee's lease asset.~~ 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 the lease asset~~ should be reduced first for any change in the corresponding lease liability. Any remaining amount should be recognized as an impairment.<sup>9</sup>

FN 9 - SFFAS 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use, par. 18-25, [provides criteria for recognizing impairment losses for property, plant, and equipment. This guidance can be analogized to lease assets if appropriate.](#)

14. 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](#): ...

15. 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 [not included in the measurement of the lease liability](#)

16. 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](#): ...

#### AMENDMENTS TO SFFAS 6 and SFFAS 57

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

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

18. Property, plant, and equipment also includes:

- [leasehold and lessor improvements owned by the reporting entity](#),<sup>17A</sup>
- ~~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 17A – See Statement of Federal Financial Accounting Standards 54, \*Leases\*, par. 11-12 and 34-35.](#)

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.

19. 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

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20. 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

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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

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- 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:
  - a. 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.
  - b. Suggesting implementation topics not addressed in GASB 2019-3.
  - c. 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.
  - d. 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.

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<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: ILLUSTRATIONS

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This appendix illustrates the application of the proposed provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the proposed provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Statements.

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## APPENDIX C: ABBREVIATIONS

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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

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APPENDIX D: GLOSSARY

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## Project Plan

	Deferral SFFAS	Implementation Guidance on Leases	Omnibus SFFAS / Interpretations	Conforming Amendments TR	Software Licenses Technical Bulletin	Training / Outreach		
FY 2020 Q1	Draft Exposure Period	Draft	Research			Draft FY 20 content		
FY 2020 Q2	Exposure Period	Draft	Research		Draft	Provide		
FY 2020 Q3	Finalize Issuance	Draft	Draft		Draft	Provide		
FY 2020 Q4		Draft	Draft	Finalize	TBD	Provide		
FY 2021 Q1		Exposure Period	Exposure Period			Draft FY 21 content		
FY 2021 Q2		Finalize	Finalize			Provide		
FY 2021 Q3		Finalize	Finalize			Provide		
FY 2021 Q4		Issuance	Issuance			Draft FY 22 content		
FY 2022 Q1						Draft FY 22 content		
FY 2022 Q2						Provide		
FY 2022 Q3		Research				Provide		
FY 2022 Q4		Research				Provide		
FY 2023 Q1		Research				Provide		
FY 2023 Q2		Research				Provide		
FY 2023 Q3		Research				Provide		
FY 2023 Q4		Research				Issuance	Provide	
FY 2024 Q1	<i>SFFAS 54 effective</i>							