Comment from Respondent(s) Staff Analysis

SFFAS 54 does not provide guidance when the underlying asset of a lease is either a heritage asset or stewardship land as defined by SFFAS 29, Heritage Assets and Stewardship Land. We suggest adding such guidance to SFFAS 54.

The remaining example is specific to easements. Could the question and response be broadened to capture rights-of-ways and other land interests? In paragraph 5, the questions relate specifically to a right-of-way agreement and a livestock grazing agreement and states these meet the definition of a lease. DOI does not disagree with the responses but would not want to extend to paragraphs 6 and 7 all encompassing and granting agreements that meet the lease definition. By broadening the question in paragraph 5, DOI believes this may alleviate any ambiguity as the response states, "...and other interests in land can qualify as a lease..." which leads the reader to presume not all agreements will qualify as a lease.

We believe a permanent easement is, in effect, ownership of a portion of the land that lacks one of the essential characteristics of a lease in paragraph 2 of SFFAS 54 — i.e. it conveys the right to use PP&E for a period of time. As a result, we suggest the board replace "may not" in the third paragraph of the answer with "would not.

Staff agrees and will modify the TR accordingly.

Paragraph 11 - Q&A Comment: Since the answer to this question is not taken from language in SFFAS 54, we recommend that Omnibus changes to SFFAS 54 or other FASAB pronouncements specifically state when a contractual right of substitution by a lessor does exist and does not affect the evaluation of a lessee’s control of the right to use an underlying asset. Along with a discussion of impacts of rights of substitution, standards should also address defining the related terms such as, "an essentially identical asset" cited in this answer, as that could be considered from different perspectives, such as comparability of benefits/services, or financial, or physical comparability and capacity. For instance if the fax machine were replaced by a multi-use fax/copier/scanner but the lessee only needed the equipment for faxing purposes, is the replacement essentially identical? Alternatively if a lessor of office space in a building needs to find replacement space for a lease due to flooding, etc., would "essentially identical space" include an equal amount and quality of office space in a building nearby?

Staff agrees and will modify the TR accordingly. Staff does not believe an Omnibus is necessary through.

While DHS does not have any lease agreement for oil and gas exploration, development or production, we have the following two questions for further clarification: (1) Should the lease liability include all variable payments that are fixed-in-substance to leases that are not a lease under the standard? Since variable payments that are fixed-in-substance to leases that are not a lease under the standard cannot be converted into-lease liabilities, we refer to paragraph 40.c. of SFFAS 54. However, it is not clear how such payments would be disclosed. (2) The lease liability is reported net of variable payments that are fixed-in-substance to leases that are not a lease under the standard. It is not clear how such payments would be disclosed.

Staff agrees with this & will make the requested changes if the Q&A is retained.

Please refer to the definitions of "consideration" in paragraphs 2 and 12 of SFFAS 54. For leases where consideration is "less than full cost," we suggest the change in wording: The lease liability would include all variable payments that are fixed-in-substance in accordance with paragraphs 40.c. of SFFAS 54.

Staff agrees and will modify the TR accordingly. Staff will consider adding another Q&A to address in-kind services as consideration.

SFAS 4, paragraph 15 defines cost as the "monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service. "Arguably given the definition of cost, the arrangement as described, if between a Federal and non-federal entity is still full cost.

While the proposed guidance is useful for related scenarios, further clarification is needed regarding non-lease transactions (e.g., rental of space from a leased in return for services to be provided by lessors to lessees). These leases would still be in the scope of SFFAS 54 and require an imputed rent amount to be determined within the scope of SFFAS 4. Please provide similar clarification as the租赁 agreements requiring in-kind services with commercial entities (not inter-entity).

Staff agrees and will modify the TR accordingly. Staff will consider adding another Q&A to address in-kind services as consideration.

Please elaborate on whether the definition of "consideration" is strictly cash or includes in-kind exchanges (e.g., a company provides services to an Agency in return for space leased from the Agency). We would like to see additional guidance around non-lease transactions where lessees may provide in-kind services or assets in exchange for the rights to use leased asset. Please provide guidance on whether the Agencies are expected to use imputed rent amount for such non-monetary transactions.

Many issues brought up by commenters are beyond the scope of the specific question asked. *ROA*

Some DoC Components use real property assets that are under the jurisdiction of Military Departments for their mission, but makes no direct payments for that use. These are known as "Real Property Permits." The DoC Components are responsible for addressing regulations, guidance, and orders. Should these "Real Property Permits" be considered leases under the provisions of SFFAS 54? Please consider providing clarifying guidance on this in the Statement or TR.

Staff agrees and will add a Q&A in the TR to clarify.

We also ask that clarification whether both terms "economic benefits" and "consideration" are only referring to monetary benefits and consideration.

Please confirm, for the purposes of this standard, that "consideration" is used only in a monetary sense, and that agreements whereby one entity (lessor) conveys the right to the control of PP&E (the underlying asset) to another entity (lessee) for a period of time as consideration for the lease are not considered leases for the purposes of the standard and that non-monetary consideration leases need not be disclosed. Consideration, in a legal sense, applies to both monetary and non-monetary services.

Staff agrees and will add a Q&A in the TR to clarify.

SFFAS 54 does not provide guidance when the underlying asset of a lease is either a heritage asset or stewardship land as defined by SFFAS 29, Heritage Assets and Stewardship Land. We suggest adding such guidance to SFFAS 54.

Staff agrees and will propose a new Q&A in the TR to address this.
Paragraph 22 states that cancellable periods should be excluded from the lease term, regardless of the amount of the cancellation penalties. We are concerned that this could create significant differences in how lessee agreements are accounted for, which would incentivize an agency to structure contracts differently. We suggest to either consider any cancellation penalty to preclude that a period be considered cancellable or to add materiality guidance to the cancellation penalty.

Regarding paragraph 22 which states the cancellable periods are excluded from the lease term, the corollary of the response appears to be that this should be treated as a short-term lease, since it can be cancelled at any time by either party unilaterally. (Based on SFFAS 54, paragraphs 22, 23, and 24) This conclusion does not appear reasonable in light of the cancellation penalties, which are so significant that neither party will terminate the lease. If the scenario described here is a real-life scenario, we suggest that FASAB specifically address the issue of how to handle a situation where the literal interpretation of the standard does not appear to produce a reasonable and fair result. If the scenario described here is to be used for study to illustrate the concept of a lease term, we suggest revising the example to make it realistic. For example, add a noncancellable term.

We would like to encourage the board to consider scenarios with significant penalties or other factors that might render highly likely that options to cancel will not be exercised. Consistent with the spirit of the "17", assessment of lease term should incorporate factors relevant to whether the lease will be extended.

The proposed language (replacing SFFAS 54 paragraph 19.a) states that periods for which both the lessor and the lessee have an option to terminate the lease without permission from the other party are excluded from the lease term as cancellable periods. (Emphasis original) Please confirm that if the cancellation penalties are so great they that exceed the total payments under the full term of the lease (with all options), then the reporting entity would need to record the higher liability (non-cancellable period plus cancellation penalty) rather than the lower liability for the reporting entity (all periods without the cancellation penalty). DoT if the view that penalties attached to cancellations options should be considered in determining the non-cancellable lease term. Impact of penalties in assessment of lease term should be consistent regardless of whether the options are held unconditionally by the lessor and/or lessee. In other words, it is not appropriate excluding periods covered by cancellation options from the lease term if significant penalties are attached to such options, implying it is not probable that such option will be exercised.

The answer refers to paragraphs 15-20 of SFFAS 54 for identifying factors to assess whether a renewal option is probable of being exercised. However, only paragraph 20 of SFFAS 54 provides examples of factors to consider for renewal options. We recommend that the answer indicate the factors listed are additional factors as they are not the identified factors in paragraph 20.

We suggest that the last sentence of Question 27 be clarified to state that the option to renew the lease is the lessor’s. We believe the reference to paragraphs 15 and 17 of SFFAS 54 in the answer should be to paragraph 15 because paragraph 17 refers to lessor accounting. We suggest changing the word “requirement” in the last sentence of the answer because the preceding sentence about communication is not a requirement in SFFAS 54. Perhaps it could be changed to “applying.”

SFFAS 54, paragraphs 84 - 88 cover lease modifications, when to classify them as a new lease, and how to re-measure related amounts. Paragraph 21 also addresses when to reassess the lease term. There does not appear to be any guidance on what to do if the lease term changes from short-term to any of the other lease categories. What would be the change be treated prospectively like a change in an estimate? Please consider providing clarification on this in the Statement or TR.

Paragraph 32 - GSA Comment: In applying the guidance provided for by the ED TR paragraph 28, while the reassessed total lease term may be 36 months it is not clear that the whole 36-months would be used from the perspective of calculating change in the reporting period of a short-term lease to long-term accounting treatment should be applied prospectively or prospectively. We would strongly suggest that retroactive review of the short-term accounting treatment is required for amounts recognized in the first six months. The ED Q&A in paragraph 20 also provides an exception where retroactive reassessment for the lease term is not appropriate. Given the different conclusions that could be reached from this, we believe it would be beneficial to have the Omnibus clarify issues related to when retroactive adjustments are required.

Deferral and subsequent amortization of concessions represents a significant level of work for the Agencies. In cases where concession might represent a free period, the Agencies will need to estimate the value of such concession, e.g., market or the while amortizing the concession over the lease term. Cost of tracking related information and processing related amortization through the lease term exceeds the limited benefits of such practice, particularly as it relates to short-term leases whereby it is not expected to be a significant balance of concessions. We would like to encourage the Board to reconsider such requirement and allow the Agencies to record short-term lease concessions when received.

We do not believe deferral and amortization of the concession alone is adequate where the related lease asset/liabilities are completely off the balance sheet. These represent short term leases whereby rather capitalization of the lease asset/liability is not receivable concession is worth the operational burden of performing such capitalization.

This step is unnecessarily complex as the guidance for the "on behalf" payment. Consider expanding the guidance for the "on behalf" payment.

TR paragraph 38 seems to add additional complexity and increased inconsistency to such determinations where it indicates, "Absent economic / pricing indicators or other significant assessments" that there are lease concessions in the contract or agreement, it is appropriate that contracts or agreements similar to this example be treated as rent increases rather than lease incentive/concessions, if economic/pricing indicators should govern whether an increase is to be treated as a lease incentive/concession. This added consideration of economic variables would appear to create ambiguity and create further challenges to implement the standard on a consistent basis.

Paragraph 59, the proposed accounting treatment would apply to the scenario where the reporting entity 's rents (i.e. "payments made by the lessee for the moving costs incurred") the scenario described here is a real-life scenario, we suggest that FASAB specifically address the issue of how to handle a situation. If the literal interpretation of the standard does not appear to produce a reasonable and fair result. If the scenario described here is to be used for study to illustrate the concept of a lease term, we suggest revising the example to make it realistic. For example, add a noncancellable term.

We recommend the following edits: "Paragraph 45 of SFFAS 54 states that the lessee liability includes any other payments to the lessor that are probable of being required based on an assessment of all relevant factors. However, SFFAS 54 does not require the inclusion of payments that are probable of being required from the lessor to parties other than the lessor in the lease liability. Such liabilities would not be included. Such liabilities would only be included in the lessee liability. Intragovernmental standards on liability recognition and measurement and SFFAS 6, Accounting for Property, Plant, and Equipment, on cleanup costs. If, however, these payments are deemed probable of being required and would be made to the lessor, inclusion of these payments would be appropriate.

Both 24 19.a

Both 36 23-24

Both 12 / 36

Both 40

TR 26

TR 27

TR 29

TR 30

TR 32 / 36

TR 40

TR 38

TR 39

TR 40

TR 40

TR 40

TR 50
staff agrees and will modify the TR accordingly.

staff agrees and will modify the TR accordingly.

staff agrees and will modify the TR accordingly.

Paragraph 94 - GSA Comment: While we agree with the response that the example is not a sale-leaseback, it is unclear how a rent concession that would be recorded as part of the consideration from the sale would not impact the initial recording of the lease, as stated in the third sentence of the answer. Since a rent concession normally does impact initial measurement, an entity would need to exclude concessions from its lease calculations that are otherwise required by SFFAS 54 (i.e., paragraphs 41 and 49 for leases). Presuming the lease is longer than 24 months and non-intragovernmental, if the concession was in the form of periods with discounted or free rent, a sale-leaseback entity would seemingly need to grow-up the amounts used for calculating its lease asset and liability to add back concession credits, as payments were being made as an unallocated (for concessions) amount. Presumably the selling entity would also create a sales receivable/revenue for the amount of the concession, and then in the months the concession credits exceed, record offsetting collections and payments to isolate the sales receivable and gross-uped lease liability. Such examples would benefit greatly from illustrative guidance of the underlying facts and credits the entities would record.

staff agrees and will modify the TR accordingly.

Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback should include a transaction that qualifies as a sale to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a transaction that qualifies as a sale should be accounted for as a borrowing by both the seller-lessee and the buyer-lessee. Intrawarrant sale-leaseback transactions do not qualify as a sale and should be treated as a borrowing by both intragovernmental parties. Further, additional guidance would be needed for the lending and borrowing of an intragovernmental sale-leaseback transaction.

Additionally, we believe consideration should also be given to expanding footnote 11 (to paragraph 96) in referencing SFFAS 7 paragraph 295, to include the subsection paragraph 295 is contained in, “Exchange Transactions with the Public” paragraph “b”) as “intrawarrant sales-leasebacks” should also be excluded from the definition of “sale.”

Further guidance and direction is needed on this topic to indicate how such borrowings are to be accounted for. Do the SFFAS 45 lease disclosure requirements still apply or does any other guidance apply to the borrowings (and if so please provide reference to such requirements). Treasury believes that paragraph 95 would not be applicable to an intragovernmental transaction similar to a sale-leaseback. However, the TR indicates that the combined guidance of paragraphs 89 of SFFAS 54 and paragraph 295 of SFFAS 7, disqualifies an intragovernmental sale-leaseback transaction from being treated as a sale because it only applies to sales transactions with the public, yet, this is not explicitly stated within SFFAS 54.

We suggest that the second paragraph of the answer be revised because paragraph 89 of SFFAS 54 does not provide the cited guidance for intragovernmental leases.

Paragraph 96 - GSA Comment: We request additional discussion to be added for the following question to provide clarity regarding SFFAS 54 paragraph 93 requirements to both real and lease-leasebacks separately. The separate disclosure would appear to create inconsistencies in total amounts disclosed as lessee/lessor activity when compared to the asset/liability balances carried for such leases. Since the disclosures require separate reporting, it seems contradictory that the accounting treatment requires recording of the net transactions. Clearly it would be required to maintain its records as if the leases were independent and then record financial statement adjustments to isolate the assets, liabilities, revenues and expenses that the components produced.

Paragraph 97 - GSA Comments: Please refer to the related comments in TR paragraph 96. The reporting entity would need to separately identify the transactions in the accounting system in order to disclose, however the recording of the transaction requires netting. This will likely be awkward and burdensome to record transactions for.

Paragraph 98 - GSA Comments: GSA expects the accounting treatment for non-selling entities using SFFAS 54 to be quite complex. This type would greatly benefit from an illustration of credits and debits that would be expected by entities properly understanding.

staff agrees and may propose an Omnibus amendment.

13 96-98 93 Par 100 strictly requires use of post-implementation lease payments in establishing implementation date lease balances. Further clarification is needed around treatment of legacy lease balances that have post-implementation economic benefits (i.e., pre-implementation direct costs with post implementation economic benefits). Unless amended, Par 100 would imply that the Agencies should identify such deferred balances, bifurcate from legacy lease receivables/payables that will be accounted for separately from the SFFAS 54 balances to avoid an SFFAS 54 transition restatement. This will, in fact, create a much bigger burden on the agencies. We would highly recommend the board to consider a more flexible approach allowing agencies to adjust legacy lease balances as needed (i.e., through matching adjustments to net beginning positions) for ease of a fresh start compliant with the requirements of SFFAS 54.

11, 18 100, 101 Par 100 and Par 101 require that the transition date ROCI asset and lease liability be equal. Such requirement conflicts directly with guidance from SFFAS 54 par. 49 (b) and 49 (c) for Lessee accounting. Even if the lease liability measurement is strictly on post-implementation lease payments, the existence of certain future lease payments taxes could warrant the right-of-use asset to differ from the lease liability (for examples of such types of lease payments, refer to SFFAS 54 par. 49 (b) and 49 (c) for Lessor and 40 (b) and 41 (b) for Lessee).

We disagree with the requirement that SFFAS 54 transition should not result in adjustments to net beginning positions. We believe the transition guidelines are not clear on how Agencies should treat certain legacy balances upon transition (e.g., initial direct costs incurred on capital leases prior to transition, deposits or prepayments, etc.). We believe the Agencies will need new leases in terms of recording adjustments to net beginning balances, in necessary, to bring those balances to where they should be based on SFFAS 54 guidance.

staff agrees and will modify the TR accordingly.

staff agrees and will modify the TR accordingly.

Omnibus 7, 22 For clarity purposes, we believe it would be beneficial to amend paragraphs 7 and 22 of SFFAS 54, Lesses, to add a part of the definition that short-term leases are non-intragovernmental leases. While the short-term and intragovernmental leases are shown as separate categories, it would be advantageous to provide the distinction in the short-term definition. For example, “A short-term lease is a non-intragovernmental lease with a lease term (as defined in par. 14-21) of 24 months or less.”

staff agrees and will modify the Omnibus accordingly.

Paragraph 57 - GSA Comment: In accordance with SFFAS 54, paragraph 50-52 would require all lease assets of equipment to be amortized. Accordingly, we suggest rewording the last sentence in the question to remove the text because it is not possible to purchase the equipment of the existence of a probable purchase option. Inclusion of this wording in the question implies that purchase options have some bearing on amortization. Only leases of land, discussed in par. 51, have unique amortization if a purchase option is insufficient probable of being exercised, which is not applicable to the lease equipment being exercised, which is not applicable to the lease equipment.

The answer states that “40.04 0 44.0 22 of SFFAS 54 provide that amounts that are probable of being required to be paid by the lessee under residue value guarantees be included in the measurement of the lease liability.” We suggest removing the reference to lease liability and not what should be included in the lease liability.

Paragraph 64 - GSA Comment: The answer does not match the definition of initial direct lease costs as paragraph 13 of SFFAS 54. We suggest the paragraph use the description of initial direct lease costs as provided in SFFAS 54 and indicate that the other information in the description does not reflect what could be initial direct lease costs.

staff agrees and will make an alternative edit to address this concern.

staff agrees and will make the required edit.

staff agrees and will make the required edit.

Paragraph 48 - GSA Comment: We believe the phrase in question may be overly simplistic and could be impacted by final wording used in the proposed change defined in the Omnibus section, paragraph 5 (amending SFFAS 54 pars.). It is not clear why the requirements of SFFAS 54 paragraphs 80, 81 and 84 would not apply to modifications of short-term and intragovernmental leases. Both short-term and intragovernmental lease modifications that shorten or lengthen the term, we believe should impact the amortization period applied to items such as leasehold improvements, or remaining balances of unamortized lease concessions. Further, the implementation fact should not be redefined for leases that are initially short-term leases but then modified to have lease terms greater than 24 months (or vice versa), we believe clarity should be provided to readers on an Omnibus up to make clear what impact a change in the lease term caused by a modification should have (or other than discussed in SFFAS 54 paragraph 21).

staff agrees and would like to delete this Q&A from the TR.

Staff agrees and will modify the TR accordingly.

Paragraph 77 - GSA Comment: While we consider the effort required to seek and document reliable statistical information on cost per square foot for utility and janitorial costs from local real property is significant, we suggest removing the reference to the other information on the definition of the short-term lease.

staff agrees and will modify the TR accordingly.

Paragraph 58 - GSA Comment: Regarding paragraph 76, in order to avoid misinterpretation, please provide examples of when installation costs are to be considered ancillary charges necessary to place the leased asset into service and when they are not. For example, if the leased asset cannot or should not be operated an ancillary charge and included in the initial measurement of the lease asset. If installment of the leased asset is optional, then installation costs must be treated as a separate liability. Also, there would be a determination in accounting treatment of the installation performed by sub-awardees for the lease.

staff agrees and will modify the TR accordingly.
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<td>13</td>
<td>Omnibus</td>
<td>10, 70</td>
<td>GSA does not consider broker commission credits a lease concession as an enticement to sign the lease, but rather Brokers are used in GSA's lease business as a normal part of the process to assist with awarding leases timely. Staff agrees and will propose an Omnibus amendment.</td>
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<tr>
<td>9, 13</td>
<td>Omnibus</td>
<td>FN5, SFFAS 6 par 25A, SFFAS 5 par 40A, 41B, 42C</td>
<td>Staff agrees. Proposing an additional Omnibus candidate.</td>
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<td>3, 13</td>
<td>Omnibus</td>
<td>64-65, 83, 86, 90</td>
<td>Staff agrees. Proposing an additional Omnibus candidate.</td>
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<td>13</td>
<td>Both</td>
<td>59</td>
<td>We request additional clarity be added to the Omnibus on how measurement is impacted for leases with zero interest charged. Staff is analyzing this to determine if an amendment can be proposed. Staff does intend to propose interest rate Omnibus amendments to reduce burden, but analysis is still in process.</td>
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<td>9</td>
<td>Omnibus</td>
<td>SFFAS 6, par 18</td>
<td>The updated SFFAS 6 does not mention leases that transfer ownership should be considered PP&amp;E (Paragraph 18 of SFFAS 6). The newly added paragraph 19 of SFFAS 6 states, “Property, plant, and equipment also excludes lease assets and land rights that meet the definition of a lease under SFFAS 54, Leases.” This could create confusion as to how agreements that transfer ownership are to be treated. Could SFFAS 6 be updated to avoid any confusion? Staff agrees and will modify the Omnibus accordingly.</td>
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<td>10</td>
<td>Omnibus</td>
<td>SFFAS 6, par 18</td>
<td>The Department respectfully requests that the edit contained in paragraph 25 of the Omnibus Amendments to Leases-Related Topics Exposure Draft of removing leasehold improvements as a component of PP&amp;E be deleted. The Department believes that leasehold improvements should continue to be reported as PP&amp;E because leasehold improvements are normally purchased and utilized by the reporting entity until such time that the facility is no longer occupied. Furthermore, the removal of leasehold improvements from PP&amp;E does not also address agencies where leasehold improvements would be reported on the Balance Sheet. Staff agrees and will modify the Omnibus accordingly.</td>
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<td>9</td>
<td>Omnibus</td>
<td>SFFAS 6, par 18, 19A</td>
<td>The draft Land D&amp;S paragraph 6 provides disclosure requirements. Land rights information should include a general description of the different types of rights acquired by the entity, whether such rights are permanent or temporary, and amounts paid during the year to maintain such rights. Land rights and easements are mentioned multiple times throughout the PP&amp;E SFFAS 6, the land draft SFFAS, and Lease SFFAS 54. It seems the 3 different SFFASs do not complement each other. It is unclear how to account for land rights and which disclosure requirements would apply. Staff is proposing an edit to the Omnibus to SFFAS 6, par 18 and 19A.</td>
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<td>10</td>
<td>BFC</td>
<td></td>
<td>The Department would like to see FASAB can address the substantially differing treatment of leases between SFFAS 84 and OMB Circular A-11, Appendix B, Budgetary Treatment of Lease-Purchases and Leases of Capital Assets. We understand that several agencies, including the Department, are very concerned that the differing treatments will result in a significantly higher effort and burden to account for leases under both methods of accounting. Staff will include a discussion about this in the Basis for Conclusions.</td>
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