

Memorandum

Leases

April 13, 2021

To: Members of the Board
From: Ricky A. Perry, Jr., Senior Analyst
Christi M. Dewhirst, Fellow
Thru: Monica R. Valentine, Executive Director
Subject: **Analysis of leases omnibus comment letters** (Topic A)

INTRODUCTION

The briefing material includes staff's analysis of comment letters received on the Board's leases omnibus proposal and recommended improvements to the proposal in response to those comments. Staff analyses and recommendations are intended to support the Board's review of comment letters and not a substitute for reading the individual letters.

REQUEST FOR FEEDBACK BY APRIL 22

Prior to the Board's April meeting, please review all comment letters (Reference Material, item 1), along with the attached staff analysis and recommendations (Attachment 1), and respond to the ensuing questions no later than April 22.

Please provide responses to Mr. Perry at PerryRA@fasab.gov and Ms. Dewhirst at gsa-fasab.detail@gsa.gov, with a cc to Ms. Valentine at ValentineM@fasab.gov.

NEXT STEPS

Pending Board member feedback, staff will continue to finalize the omnibus proposal in tandem with the implementation guidance Technical Release (TR) proposal. The AAPC will meet on May 6 to resolve outstanding issues and make any necessary changes to the TR related to the Board's decisions on the omnibus.

The Board will be provided with a copy of the implementation guidance proposal in advance of the June meeting. The project remains on schedule (see Attachment 2).

ATTACHMENTS

1. Staff recommendations and analyses
2. Leases project plan
3. *Omnibus Amendments on Leases-Related Topics*, marked with suggested edits
4. QFR responses, with staff notes

REFERENCE MATERIAL

1. [Compendium of comment letters](#)
2. [March 11 AAPC meeting materials and minutes](#)
3. [February 22 and March 2 leases task force meeting minutes](#)
4. [Statement 54](#)

Staff Analysis

Leases

April 13, 2021

CONTEXT

As part of the leases implementation guidance project, the Board has identified and proposed omnibus amendments that cannot be addressed in the implementation guidance TR. TRs 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. The joint exposure draft was released in November 2020 with comments received in February 2021. Staff has analyzed the comments and prepared recommendations for the Board's consideration.

FASAB has received 25 responses from the following sources:

	FEDERAL	NON-FEDERAL
Associations	-	4
Auditors/Accounting Firms	1	2
Preparers and financial managers	18	-
Individuals	-	-

Staff strongly encourages the Board to read the comment letters in their entirety before reviewing the staff analysis and recommendations below. Comment letters can be found at https://fasab.gov/projects/active-projects/leases/leases_joint_tr_sffas_ed_comments/. On this page, respondents are identified in the order that their letters were received.

Staff thanks the leases implementation task force and the AAPC for their continued assistance in identifying implementation issues. Since the comment period closed, the task force and AAPC held meetings and provided additional feedback and input on the staff recommendations and other comments addressed.

The AAPC will meet again in May to resolve outstanding issues and make any necessary changes to the TR related to the Board's decisions on the omnibus. As noted above, staff will provide a copy of the TR in advance of the June meeting.

SUMMARY OF RECOMMENDATIONS AND ANALYSES

A vast majority of respondents (23 of 25) indicated support of the proposed Statement and TR. These respondents cited better insight into long-term costs, more visibility on leasing arrangements, and improved decision making as reasons for their support. Many also noted that the omnibus amendments and implementation guidance will be helpful as they prepare to implement Statement 54.

Staff is pleased that the omnibus candidates reflected in the exposure draft were supported by respondents. Numerous respondents provided insightful comments and suggested improvements to the proposals. Some of these pertained to the omnibus proposal, while some pertained to the TR proposal and do not affect the omnibus proposal.

Staff agrees with many of the comments and suggestions submitted, and recommends several revisions to improve the draft Statement, as discussed below and reflected in Attachments 3 and 4.

ANALYSIS

Analysis of Responses to Question for Respondents #1:

QFR 1. Do you generally support the proposed Statement and TR proposals as a whole? Please provide reasons for your views.

As noted above, 23 of 25 respondents indicated support for the proposed Statement.

One respondent indicated that they do not support the proposed Statement and TR. Staff noted that the respondent disagrees with the premise of changing lease accounting. Therefore, the real disagreement is with Statement 54, rather than with the omnibus amendments or implementation guidance under consideration. The Board has already deliberated on the merits of Statement 54 as a whole, and staff does not recommend revisiting this issue. One respondent did not respond to this question; however, this respondent did not disagree with anything.

Recommendations

Staff has no recommendations pertaining to QFR #1.

Question for the Board #1:

1. Do Board members have any questions or concerns as it relates to the responses received to QFR #1?

Analysis of Responses to Questions for Respondents #2 and #3:

QFR 2. 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 3. Are you aware of any implementation issues that are not addressed in the proposed Statement [and/or TR]? Do any ambiguous areas remain that could lead to challenges with implementing SFFAS 54 requirements? If so, please provide examples of the issues and any references to applicable guidance, and/or topic area(s) related to the issues, and any potential solutions you propose.

Due to the open-ended nature of these two questions, staff grouped responses by subject area in Attachment 4. This allowed staff to analyze all comments on a particular issue simultaneously and prepare a cohesive recommendation for each item. The issues identified by respondents that staff recommends omnibus edits/amendments to address are discussed first, followed by issues for which staff does not recommend any changes.

Issues for which staff recommends changes to address

1. **SFFAS 54, Definitions section** – *Staff proposes a clarifying edit to the definition of short-term leases in paragraphs 7 and 22 of Statement 54. See Attachment 3 par. 4 and 8.*

One respondent requested that it be made clear that short-term leases are non-intragovernmental leases. Staff agreed with this recommendation and is proposing an edit to add “non-intragovernmental” to the short-term lease definition. Such a change will ensure that preparers consistently subject short-term intragovernmental leases to the disclosure requirements of paragraphs 37-38 of Statement 54.

2. **SFFAS 54, Definitions section** - *Staff proposes a clarifying edit to the definition of lease concessions in paragraphs 10 and 70 of Statement 54. See Attachment 3 par. 5 and 28.*

One respondent (GSA) noted that they do not consider broker commission credits to meet the definition of a lease concession. The respondent stated that the broker commission credit is not an enticement to sign the lease, but rather the use of a broker is a business practice utilized to assist with awarding leases timely. Staff researched the inclusion of commission credits in the definition of lease concessions and determined that it was likely included because it is GSA’s current practice to straight-line commission credits. However, this is because the current guidance requires straight lining of non-level rent. It does not specify that it must be a lease concession. Staff agrees with the assessment that a commission credit is

not an enticement to sign the lease, and staff recommends that commission credits be removed from the definition of lease concessions. Staff also recommends a clarifying that the second sentence in the definition is providing *examples* of lease concessions.

3. **SFFAS 54, Lease Term section** – *Staff proposes a discussion on paragraph 19.a. of Statement 54 at the April meeting.*

Five respondents expressed concern over paragraph 19.a of SFFAS 54. These respondents stated that it does not appear reasonable that cancelable periods should be excluded from the lease term if the cancellation penalties are so great that there is strong evidence that neither party will terminate the lease. The Board considered this at the June 2020 meeting and opted to keep paragraph 19.a the way it is. Staff does not recommend an omnibus amendment, but would like the Board to review the comments received and consider if this should be reevaluated.

4. **SFFAS 54, Short-Term Leases section** – *Staff proposes removing the requirement to straight-line lease incentives and lease concessions for short-term leases in paragraphs 23-24. See Attachment 3 par. 9-10.*

Three respondents expressed concern that the deferral and amortization of the lease incentives/concessions is a significant burden that seems unnecessary when the related lease asset/liabilities are off the balance sheet. When this was presented at the task force meeting, several members commented that they agreed and would appreciate the Board's consideration. The AAPC was also supportive of this amendment. Staff recommends removing this requirement to ease the burden on preparers and maintain a simple process for short-term leases.

There was also an AAPC member comment to correct the wording in the middle of the paragraphs, because the liability recognition is not a function of the subsequent payment made, rather a function of an obligation that existed as of the end of the reporting period. Staff agrees with this suggestion and is recommending this edit as well.

5. **SFFAS 54, Intragovernmental Leases section** - *Staff proposes removing the requirement to straight-line lease incentives and lease concessions for intragovernmental leases in paragraphs 31-33, 71. See Attachment 3 par. 14-15 and 29.*

One respondent noted the complexity of assessing whether something meets the definition of a lease incentive/concession in an intragovernmental lease. This respondent noted that the definition of a lease incentive/concession requires it to be an enticement for the lessee to sign the lease. This can be difficult to ascertain in intragovernmental leases.

For example, in its role as a lessee, GSA often negotiates free rent periods with the private-sector lessor. GSA would recognize these free rent periods as lease concessions in its role as a lessee because they were an enticement for GSA to

sign the lease. GSA, as a lessor, would then sub-lease the space to another agency. As a matter of policy, GSA would pass on the free rent credit to the agency. However, GSA would not consider this a lease concession in the context of the sub-lease, because the free rent did not entice the agency to sign with GSA. The other agency would have approached GSA with its request for space much earlier in the process and would have signed any lease that GSA was able to negotiate that met its requirements. The free rent is a pass through in this case, but it did not entice the agency to sign the sub-lease with GSA.

Staff believes that most credits in intragovernmental leases will be pass throughs like this and will not meet the enticement criteria of a lease incentive/concession.

Staff is also concerned that the complexity surrounding intragovernmental leases could result in one agency considering something a lease incentive/concession, but the other agency not considering the same credit as a lease incentive/concession. This could result in increased intragovernmental differences.

Therefore, staff recommends an edit to paragraph 31 to allow lease incentives and concessions to be recognized in the period in which they occur. Staff also recommends rescinding paragraphs 32-33 and modifying the footnote reference in paragraph 71.

6. SFFAS 54, Lease Liability and Lease Receivable sections – Staff proposes an edit to paragraphs 42 and 59 to remove the requirement to impute the interest rate. See Attachment 3 par. 19 and 24.

Two respondents requested clarification on interest rates. An AAPC member also expressed concern regarding the ability of smaller reporting entities to implement the interest rate requirements in Statement 54. Staff concurs with this view.

Paragraphs 42 and 59, in their current form, require lessees and lessors to discount lease liabilities and receivables using the rate charged by the lessor; however, the paragraphs also state that “this [the rate charged by the lessor] may be the interest rate implicit in the lease.” Staff recommends amending this language.

This language introduces highly-complex calculations and interest imputation methodology requirements that many preparers will find to be unworkable for purposes of calculating implicit rates. Determining implicit interest rates and/or imputing interest rates would require fair value estimates of underlying assets, estimates of service capacity utilization, and extensive resources for producing and supporting those assumptions.

The unintended ambiguity in language concerning when to use incremental borrowing rates and at what point it is appropriate to do so would likely result in costly implementation challenges and preparer-auditor disagreements with respect to whether or not to impute the interest rate.

Staff’s recommendation is to require reporting entities to simply use the interest rate stated in the lease contract. If no interest rate is stated in the lease contract, lessees and lessors should use their estimated incremental borrowing rates.

7. **SFFAS 54, Deferred Revenue section** – *Staff recommends a discussion on potentially changing the term “deferred revenue” to “unearned revenue” in paragraphs 64-65 and elsewhere throughout Statement 54. See Attachment 3 par. 25.*

Two respondents asked that the term “deferred revenue” be reconsidered. The respondents indicated that the term is confusing and recommended another liability account be used in its place. Staff recommends the term “unearned revenue” be considered instead.

Staff hypothesizes that the use of the term would be more widely understood by users of general purpose federal financial reports. Staff observes that “deferred revenue” places emphasis on the recognition status of the revenues, whereas “unearned revenue” places emphasis on the lessors obligations associated with earning those revenues. In the context of presenting this line item on the statement of financial position as a liability, use of this term may serve to demystify the nature of the account for some users.

In staff’s view, the Board’s decision on this matter is not critical. In preliminary discussions, Treasury staff were agreeable with this proposal. Treasury and FASAB staff both agreed that the USSGL account name and definition will ultimately be decided by Treasury. This potential change, if agreed to, would merely signal a terminology preference from the Board.

8. **SFFAS 54, Lease-Leaseback Transactions section** – *In paragraph 93, staff proposes an edit to account for lease-leasebacks as two separate transactions instead of as a net transaction. See Attachment 3 par. 30.*

Two respondents requested clarification on lease-leaseback transactions. They expressed concern that Statement 54 requires these transactions to be netted but the disclosures to be reported separately. The respondents indicated that this would be burdensome. Staff agrees and recommends that paragraph 93 be amended to account for lease-leasebacks as separate transactions.

9. **SFFAS 54, Contracts or Agreements That Transfer Ownership section** – *Staff proposes an edit to the footnote reference in paragraph 25, an edit to paragraph 18 of SFFAS 6, and a new paragraph in SFFAS 5 (par. 43A) and SFFAS 6 (par. 26A) to address the recognition of contracts or agreements that transfer ownership. See Attachment 3 par. 33-34 and 36.*

Two respondents noted a gap that exists in the Statements for contracts or agreements that transfer ownership. Statement 54 states that these contracts should be reported as a purchase of the asset by the lessee and includes a footnote reference to Statement 6. However, the paragraph that was referenced in Statement 6 does not include a measurement basis for valuing historical cost for lease contracts or agreements that transfer ownership. This guidance was previously found in paragraph 29 of Statement 6 for capital leases, but that was rescinded by Statement 54. Staff recommends adding a new paragraph (26A) to

Statement 6 to address this and updating the footnote reference in Statement 54 accordingly. Staff also recommends adding a similar paragraph (43A) to Statement 5 for liability recognition. Finally, staff recommends adding a bullet for lease contracts or agreements that transfer ownership to paragraph 18 of Statement 6. These omnibus amendments will facilitate needed implementation guidance in this area.

10. SFFAS 6, Definitions section – Staff proposes adding leasehold improvements back to the definition of PP&E in paragraph 18. See Attachment 3 par. 34.

Two respondents requested that leasehold improvements be added back to the definition of PP&E. They noted that leasehold improvements are tangible assets that generally are consistent with the definition of PP&E in paragraph 17 of Statement 6 and it would be appropriate in most circumstances to include leasehold improvements as a subcomponent of PP&E. Staff agrees and recommends adding leasehold improvements back to paragraph 18 of Statement 6.

11. SFFAS 6, Definitions section – Staff proposes a clarifying edit to land rights in paragraph 18. See Attachment 3 par. 34.

Two respondents expressed confusion on when land rights meet the definition of a lease and when they are PP&E. Staff recommends a clarifying edit to paragraph 18 of Statement 6 to reduce confusion in this area.

Question for the Board #2:

2. Do members agree with staff's recommendations for changes to the leases omnibus? What feedback do members have?

Issues for which staff recommend no actions:

12. Five respondents mentioned the differences in leases recognition between Statement 54 for proprietary accounting and OMB Circular A-11 for budgetary funding. Several asked that OMB consider changing the A-11 requirements to match Statement 54. Although this issue generated a lot of discussion, staff determined that there is nothing for the Board to act on. This issue was deliberated previously when Statement 54 underwent due process, and staff does not recommend any changes at this time. However, due to the continued interest in this topic, staff intends to include some discussion of the matter in an updated Basis for Conclusions (which will be reviewed by the Board at the June meeting).
13. One respondent requested clarification on embedded leases. The respondent expressed concern that some manufacturing contracts may be viewed as

embedded leases because the reporting entity is the only customer for a particular facility or piece of equipment. While staff appreciates this concern, staff does not recommend changing the definition of a lease.

14. One respondent requested that public-private partnerships be scoped out of Statement 54 and addressed separately. While there is an additional project on public-private partnerships forthcoming, staff does not recommend excluding public-private partnerships from Statement 54. If that approach were taken, staff is concerned that there would be a lack of guidance for these transactions, many of which do meet the definition of a lease. Staff is confident that the scope and applicability of various pronouncements to public-private partnerships that include leases will become sufficiently clear as additional public-private partnership guidance is developed and issued.
15. Two respondents recommended that the Board offer the same or similar practical expedients offered by FASB. Staff disagrees with this approach because it would take years to realize the benefits of implementing Statement 54. There are many long-term leases in the federal government and allowing these practical expedients would entail having agencies follow two different accounting principles for many years. It would also result in financial information that is not useful for purposes of measuring and assessing leasing arrangements on the balance sheet until all pre-existing lease terms ended. Staff remains confident that the three-year deferral provides agencies enough time to prepare for successful implementation.
16. One respondent requested additional guidance on intragovernmental leasehold improvements and noted the additional complexity when subleasing is involved. Staff appreciates this request and is working on an interpretation on this topic.
17. One respondent requested an additional omnibus proposal to Statement 44 may be appropriate to further clarify that Statement 44 can, in certain circumstances, be applied to leased assets for the lessee. Staff noted that paragraph 53 of Statement 54 states clearly that leased assets are subject to Statement 44. Staff believes that this reference, along with the clarifying omnibus changes to paragraph 53, are sufficient and does not recommend amending Statement 44 at this time. Staff expects it to be extremely rare for lessees to recognize impairment losses that exceed any reductions to the lease liability resulting from impairment. These matters can be revisited at a later time, if determined necessary.
18. One respondent questioned the decision to move leased assets out of PP&E. The respondent supports a clear distinction in the financial presentation of lease assets (and lease liabilities) from other PP&E, given their unique nature and difference in measurement, but believes that such distinction is preferable to be within the PP&E category. However, they do not have a strong objection to the proposed Omnibus change to remove leased assets from PP&E reporting, and into separate presentation on the Balance Sheet, given the unique measurement/valuation requirements that are not comparable to traditional PP&E. Staff prefers to keep leased assets separate from PP&E as reflected in the current omnibus proposal.

Lease assets do not meet the definition of PP&E. Separating the asset types also provides more clarity to users when reviewing the financial statements by distinguishing between owned, tangible property and intangible rights to use leased property.

19. One respondent requested that footnote 2A for paragraph 5 of Statement 54 be moved into its own paragraph instead of a footnote. The Board deliberated on this in June 2020 and decided to include this information in a footnote. Staff does not recommend revisiting this issue.
20. One respondent recommended including the definition of “annual lease expense” found in paragraph 37.b and 54.e of Statement 54 in the Statement rather than in the TR. Staff recommends leaving this in the TR as it can be interpreted from the Statement.
21. One respondent recommended including the additional factors to consider in determining whether a renewal option is probable of being exercised in paragraph 20 of Statement 54 rather than in the TR. Staff disagrees with this approach as the factors listed in the TR are simply examples and not intended to be a complete list.
22. One respondent requested that the requirement that lease term reassessments consider the entire lease term be added to the Statement rather than addressed in the TR. Staff does not believe this is necessary, as the only time Statement 54 allows for using the remaining lease term is at the initial implementation of Statement 54. Beyond that, the lease term is clearly defined in paragraphs 14-21.
23. One respondent suggested adding the requirement that lease receivables be amortized using the interest method to paragraph 60 of Statement 54 rather than in the TR. Staff does not believe this is necessary.
24. One respondent suggested that the Board consider clarifying whether Statement 4, as amended, should be applied to leases and, if so, how it should be applied. Staff does not believe this is necessary or appropriate.
25. One respondent requested that the Board align more closely with FASB in several areas. Staff noted that the Board made the decision to align most closely with GASB, not FASB in developing Statement 54. Staff does not recommend revisiting this issue.

Question for the Board #3:

3. Do members wish to discuss and/or deliberate any of the issues enumerated above for which staff recommends taking no action at this time?

Analysis of Responses to Question for Respondents #4:

QFR 4. Are there specific aspects of these proposals that you favor or otherwise wish to provide comments on?

Most respondents (21 of 25) did not have any additional comments. Most included their comments under QFR 2 and QFR 3, which have already been addressed. The remaining respondents (4 of 25) had comments that related to the TR or other things outside of the omnibus proposal. Those comments have been reviewed by the AAPC.

Recommendations

Staff has no recommendations pertaining to QFR #4.

Note: The specific matters for comment that were included in the joint exposure draft were all related to the TR. Therefore, the comments and analysis for those questions is not included here. That analysis was presented to the AAPC in March 2021, and the Committee made edits to the TR accordingly.

TRANSITION GUIDANCE: REQUEST FOR CLARIFICATION

96. This Statement requires that leases unexpired at the beginning of the reporting period in which the Statement is implemented be recognized and measured using the facts and circumstances that exist at the beginning of the reporting period. Therefore, in the period of implementation,

a. the determination of the lease term would assume that the lease term began as of the beginning of the period of implementation and

b. the lease liability and lease asset should initially be measured based on the remaining lease term and associated lease payments as of the beginning of the period of implementation.

At the March AAPC meeting, a Committee member expressed a view that paragraph 96.b of Statement 54 provides for the lease liability and lease asset balances being the same on the date of implementation (for any unexpired leases at the beginning of the reporting period in which the Statement is implemented).

Paragraph 96 serves to define the scope of payments subject to lease asset and lease liability measurement for unexpired leases at the beginning of the reporting period of implementation. Paragraph 96.b, in effect, provides guidance on how to initially recognize and measure payments that fall under paragraphs 49.b and 49.c for measuring lease assets.

49. A lessee should initially measure the lease asset as the sum of the following:

a. The amount of the initial measurement of the lease liability (par. 40)

b. Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives (par. 70-71).

c. Initial direct lease costs that are necessary to place the lease asset into service

Staff wishes to obtain clarification from the Board regarding whether or not it intended for payments under paragraphs 49.b and 49.c to be excluded from initial measurement for any unexpired leases at the beginning of the reporting period of implementation.

This would result in the lease liability and lease asset amounts for all unexpired leases being equal at the date of implementation. Any existing asset balances associated with such payments (under par. 49.b-c) would be removed from the financials and adjustments would be made to the beginning balance of cumulative results of operations in the statement of changes in net position.

In researching prior deliberations, staff did not come across records of deliberations and Board feedback specific to this particular issue.

Staff does not recommend any changes to the transition guidance, but wishes to confirm its understanding with the Board regarding the intent of paragraph 96.

Question for the Board #4:

4. Do members have comments or concerns on the intent of paragraph 96 and its application? Please provide any details regarding original intent and/or deliberations that staff may have overlooked during research.

	Deferral SFFAS	Implementation Guidance on Leases TR	Leases Omnibus SFFAS	Leases SIG (Illustrations)	Leases Interpretation	Conforming Amendments To Existing TRs	Training / Outreach
FY 2020 Q1	Draft Exposure Period	Draft	Research				Draft FY 20 content
FY 2020 Q2	Exposure Period	Draft	Research				Provide
FY 2020 Q3	Finalize Issuance ISSUED	Draft	Draft				Provide
FY 2020 Q4		Draft	Draft				Provide
FY 2021 Q1		Exposure Period	Exposure Period	Research Draft	Research Draft		Draft FY 21 content
FY 2021 Q2		Exposure Period Finalize	Exposure Period Finalize	Draft	Research Draft		Provide
FY 2021 Q3		Finalize	Finalize	Draft	Draft	Merge into the implementation guidance TR	Provide
FY 2021 Q4		Finalize / Approve	Finalize / Approve	Draft	Draft		Draft FY 22 content
FY 2022 Q1		Issuance	Issuance	Exposure Period	Exposure Period		Draft FY 22 content
FY 2022 Q2				Finalize / Approve	Exposure Period Finalize		Provide
FY 2022 Q3		Research	Research	Issuance	Finalize / Approve		Provide
FY 2022 Q4		Research	Research		Issuance		Draft FY 23 content
FY 2023 Q1		Research	Research				Provide
FY 2023 Q2							Provide
FY 2023 Q3							Provide
FY 2023 Q4							Provide
FY 2024 Q1	SFFAS 54 effective						



Federal Accounting Standards Advisory Board

OMNIBUS AMENDMENTS TO LEASES-RELATED TOPICS

Statement of Federal Financial Accounting Standards **XX**

Month DD, YYYY

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:

- [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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~~Federal Accounting Standards Advisory Board~~

~~November 2, 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 to 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 5, 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. 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 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 _____ George A. Scott~~
~~AAPG Chair _____ FASAB Chair~~

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This ~~proposed~~ Statement of Federal Financial Accounting Standards (SFFAS) ~~would~~ amend paragraphs in SFFAS 54, *Leases*; SFFAS 57, *Omnibus Amendments 2019*; and SFFAS 6, *Accounting for Property, Plant, and Equipment*.

In August 2019, the Accounting and Auditing Policy Committee (AAPC)—which operates under the general oversight of the Federal Accounting Standards Advisory Board (FASAB or “the Board”)—undertook a project to develop proposed implementation guidance for SFFAS 54 as a Technical Release. During the course of the project, implementation issues were identified that are best addressed through omnibus amendments to leases guidance, mostly clarifying in nature, rather than through a Technical Release. The issues noted required modifications to the existing Statements to provide clarity and address areas of concern.

This ~~proposal would~~ Statement addresses those issues by clarifying ambiguities and improving consistency throughout SFFAS 54, SFFAS 57, and SFFAS 6 with omnibus amendments. It ~~would also~~ amends and rescinds certain ~~disclosure~~ requirements in SFFAS 54 that were determined to be less likely to yield meaningful information.

MATERIALITY

The provisions of this ~~proposed~~ Statement ~~would not need~~ not to be applied to information if the effect of applying the provision(s) is immaterial.¹ 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.

¹ 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.

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QUESTIONS FOR RESPONDENTS

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 Federal Financial Accounting Technical Release (TR) before responding to the questions for respondents (QFR) and specific matters for comment (SMC) 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 5, 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. If you are unable to submit your comment letter via email, please contact 202-512-7350.

QFR 1. Do you generally support the proposed Statement and TR proposals as a whole? Please provide reasons for your views.

QFR 2. 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 3. Are you aware of any implementation issues that are not addressed in the proposed Statement and/or TR? Do any ambiguous areas remain that could lead to challenges with implementing SFFAS 54 requirements? If so, please provide examples of the issues and any references to applicable guidance, and/or topic area(s) related to the issues, and any potential solutions you propose.

QFR 4. Are there specific aspects of these proposals that you favor or otherwise wish to provide comments on?

SMC 1. Is the proposed guidance under paragraph 4 of the proposed TR applicable to federal lease scenarios to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

SMC 2. Please provide feedback regarding the usefulness of the proposed guidance under paragraph 13 of the proposed TR and/or the extent to which you believe the proposed guidance addresses implementation issues related to federal oil and gas leases. Please describe any alternative views or suggestions for improvement.

SMC 3. Is the proposed guidance under paragraph 95 of the proposed TR potentially applicable to intragovernmental transactions that are similar to a sale-leaseback to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

SMC 4. Is the proposed guidance under paragraph 98 of the proposed TR applicable to existing and/or potential intragovernmental lease-leaseback transactions to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

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, along with other omnibus changes.

AMENDMENTS TO SFFAS 54

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

5. This Statement does not apply to

5.a accounting for leases of assets prior to the commencement of the lease term, such as during ~~under~~ construction periods or ^{2A}

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 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, and the lessor would reclassify the advances received as unearned revenue in accordance with par. 64.b.

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

7. **Short-Term Lease** – A short-term lease is a non-intragovernmental lease with a lease term (as defined in par. 14-21) of 24 months or less.

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

10. **Lease Concessions** – Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. Lease concessions include rent holidays/free rent periods, or reduced rents, ~~or commission credits~~.

6. 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: ...

7. 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.

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

22. A short-term lease is a non-intragovernmental lease with a lease term (as defined in par. 14-21) of 24 months or less.

9. 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 and unpaid at the end of the reporting period, to which they relate. 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.^{4A}

FN 4A—See par. 10 for the definition of lease concessions.

10. 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 and to be received subsequent to the if payments are received subsequent to that reporting period to which they relate. 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.^{4B}

FN 4B—Ibid.

11. Paragraph 25 of SFFAS 54 is amended as follows:

25. A contract or agreement that (a) transfers ownership of the underlying asset to the lessee by the end of the contract or agreement and (b) does not contain options to

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terminate (par. 14-19), but that may contain an availability of funds or cancellation clause that is not probable of being exercised (par. 19.c), should be reported as a purchase of that asset by the lessee or as a financed sale of the asset by the lessor.⁵

FN 5 – See SFFAS 6, Accounting for Property, Plant, and Equipment, par. 26A.

12. 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.

13. 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).

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

31. If the lease provides for rental increases, a lessee Rental increases, or rental decreases, lease incentives, and that are not lease concessions should be recognized the expense in the period in which they occur of the increase/decrease.^{5A}

FN 5A – See par. 10.

15. Paragraphs 32-33 of SFFAS 54 are rescinded.

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

37. Lessees should disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure):

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

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

38. Lessors should disclose the following regarding intragovernmental lease activities (which may be grouped for purposes of disclosure):

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

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

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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).

19. Paragraph 42 of SFFAS 54 is amended as follows:

42. The future lease payments should be discounted using the interest rate the lessor charges the lessee, ~~which may be the interest rate implicit in the lease~~. If the interest rate ~~is not stated in the lease cannot be reasonably estimated by the lessee~~, the **lessee's estimated incremental borrowing rate**⁷ (the estimated rate that would be charged for borrowing the lease payment amounts for the lease term) should be used.

FN 7 - A federal lessee'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.

20. 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 paragraphs 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 par. 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 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 applied 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.

21. 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: ...

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

54.a A general description of its leasing arrangements, including ~~i-~~ the basis, terms, and conditions on which variable lease payments not included in the lease liability are determined

~~ii. the existence, terms, and conditions of residual value guarantees provided by the lessee~~

23. 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

24. 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 is not stated in the lease, the lessor's estimated incremental borrowing rate should be used.~~^{9A}

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.

25. ~~Paragraphs 64-65 of SFFAS 54 are amended as follows. The term "deferred revenue" is also replaced by "unearned revenue" elsewhere in SFFAS 54, including paragraphs 55, 83, 86, and 90.~~

~~Unearned, Deferred~~ Revenue

64. A lessor initially should measure the ~~unearned, deferred~~ revenue to include the following: ...

65. A lessor subsequently should ~~amortize-recognize~~ the ~~unearned, deferred~~ revenue, ~~recognizing it as earned revenue~~, in a systematic and rational manner over the term of the lease. The ~~unearned, 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 unearned revenue to zero, any remaining amount should be reported in the statement of net cost as a loss.~~

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

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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](#): ...

27. 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 ...

28. [Paragraph 70 of SFFAS 54 is amended as follows:](#)

Lease incentives include lessor payments made to or on behalf of the lessee to entice the lessee to sign a lease. Lease incentives may include up-front cash payments to the lessee, for example, moving costs, termination fees to lessee's prior lessor, or lessor's assumption of the lessee's lease obligation under a different lease with another lessor. Lease concessions are rent discounts made by the lessor to entice the lessee to sign a lease. ~~For example, lease concessions may include rent holidays/free rent periods, or reduced rents, or commission credits.~~

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29. 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.^{10A}

[FN 10A - The treatment of lease incentives and lease concessions is addressed in par. 23-24 for short-term leases and par. 31-2-33 for intragovernmental leases.](#)

30. [Paragraph 93 of SFFAS 54 is amended as follows:](#)

93. In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. The leaseback may involve an additional asset (such as leasing a building that has been constructed by a developer on land owned by and leased back to a federal entity) or only a portion of the original asset (such as leasing back only one floor of a building to the owner). A lease-leaseback transaction should be accounted for as [two separate transactions as a net transaction](#). Both parties to a lease-leaseback transaction should disclose the amounts of the lease and the leaseback separately.

AMENDMENTS TO SFFAS [5](#), [SFFAS 6](#), AND SFFAS 57

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

32. 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.

33. [Paragraph 43A is added to SFFAS 5, Accounting for Liabilities of the Federal Government, as follows:](#)

[Lease Contracts or Agreements That Transfer Ownership](#)

[43A. The amount to be recorded as a liability under a lease contract or agreement that transfers ownership shall be equal to the amount that would otherwise be recognized as a lease liability at the commencement of the lease term \(see SFFAS 54 par. 40-48\).](#)

34. 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;~~ [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 that do not meet the definition of a lease;~~¹⁸ [and](#)
- [Lease contracts or agreements that transfer ownership](#)^{18A}

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.

[FN 18A – See SFFAS 54 par. 25.](#)

35. 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*.

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

26A. The cost of general PP&E acquired through a lease contract or agreement that transfers ownership shall be equal to the amount that would otherwise be recognized as a lease asset at the commencement of the lease term (see SFFAS 54 par. 49).

EFFECTIVE DATE

37. 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, 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.¹
 - 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 FASAB for its 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.

¹The GASB material is copyrighted by the Financial Accounting Foundation (FAF), 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116, and was used with permission. Complete copies of the documents are available from the FAF.

- A4. In June and August 2020, the Board discussed omnibus amendments candidates identified by project staff and the task force to include in the exposure draft. The major points of discussion included:
- a. Clarifying the treatment of assets under construction, including payments prior to the commencement of the lease term, in the context of the scope exclusion enumerated in paragraph 5.a. of SFFAS 54. The Board agreed to make clarifying edits to the scope exclusion in the proposal.
 - b. Potential options for amending paragraph 19.a of SFFAS 54 to require detailed analyses of those cancelable periods that are, in substance, unlikely to be canceled by either the lessee or the lessor. After additional research and discussions, the Board concluded that paragraph 19.a should remain unamended. Board members noted that revising the paragraph would likely result in undue costs and preparer burdens. Moreover, the Board believes that reporting entities and their counterparties often have sufficient disincentives that deter them from prevalently engaging in significant off-balance-sheet financing through use of cancelable periods.
 - c. The Board agreed to propose clarifying amendments to address step rent decreases throughout the Statement.
 - d. The Board agreed to propose the rescission of certain disclosure requirements reflected in paragraphs 38.a and 54.a.ii of SFFAS 54 to alleviate the associated challenges and costs in implementing such requirements. After additional research and deliberations, members agreed that those requirements did not generally meet the qualitative characteristics of useful financial information. For example, members believed that the compilation and presentation of such information would not be consistent, comparable, or provide sufficient feedback or predictive value to decision-makers.
 - e. The Board agreed to maintain the current discount rate guidance in paragraph 42 of SFFAS 54 and to propose the addition of comparable language for lessors in paragraph 59 with respect to use of estimated incremental borrowing rates when the interest rate of a lease cannot be reasonably estimated.
 - f. The Board agreed to propose numerous clarifying amendments to paragraph 53 of SFFAS 54 to facilitate consistent and correct application of the requirements in SFFAS 54 and SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, when impairment indicators are present with respect to assets underlying a lease.
 - g. The Board agreed to propose clarifying amendments related to the classification of lease assets by striking the term “PP&E” in SFFAS 54 and SFFAS 57, *Omnibus Amendments 2019*, in certain locations where use of the term implies that lease assets—rather than the underlying assets—are PP&E. The Board discussed the potential benefits to defining intangible assets but agreed that the most appropriate mechanism for doing so would be in a separate project focused on intangibles. The Board also agreed to propose amendments to SFFAS 6, *Accounting for Property, Plant, and Equipment*, to clarify that PP&E would not include lease assets or land rights that meet the definition of a lease.

APPENDIX **BC**: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
FAF	Financial Accounting Foundation
FASAB	Federal Accounting Standards Advisory Board
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
PP&E	Property, Plant, and Equipment
QFR	Questions for Respondents
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SMC	Specific Matters for Comment
TR	Federal Financial Accounting Technical Release

Commented [PR(1)]: Illustrative version of SFFAS 54 (Appendix B of ED) removed.

FASAB Members

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Number	Organization
1	Department of Housing and Urban Development (HUD)
2	Department of Homeland Security (DHS)
3	Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA)
4	Environmental Protection Agency (EPA)
5	Department of Education
6	Department of Defense (DoD)
7	Social Security Administration (SSA)
8	Natural Resources Conservation Service (USDA)
9	Department of the Interior (DOI)
10	Department of Commerce
11	AGA's Corporate Partner Advisory Group (CPAG)
12	National Aeronautics and Space Administration (NASA)
13	General Services Administration (GSA)
14	Asset Leadership Network (ALN)
15	Greater Washington Society of CPAs (GWSCPA), Federal Issues and Standards Committee (FISC)
16	Department of the Treasury
17	Department of Veterans Affairs (VA)
18	Department of Transportation
19	KPMG
20	Department of Justice (DOJ)
21	Securities and Exchange Commission (SEC)
22	Kearney & Company
23	Government Accountability Office (GAO)
24	Department of Energy (DOE)
25	Department of State

QFR 1: Do you generally support the proposed Statement and TR proposals as a whole? Please provide reasons for your views.				
Ref Number	Respondent Name/Organization	Agreement type	Summary Response	Staff Notes
1	HUD	Agree	Yes, the Department of Housing & Urban Development supports the proposed Statement and the TR as a whole as it will provide clarification in SFFAS 54, Leases; SFFAS 6, Accounting for Property, Plant, and Equipment; and SFFAS 57, Omnibus Amendments 2019 and also supplement SFFAS 54, Leases.	Respondent agreed so there was no response required by staff.
2	DHS	Agree	DHS supports the proposed Statement and Technical Release as a whole. The Statement and TR provide clear guidance for applying the requirements of SFFAS 54 and address several implementation issues faced by federal agencies.	Respondent agreed so there was no response required by staff.
3	AGA - FMSB	Agree	Yes, with the exceptions noted below, we do generally support the proposed Statement and TR proposals. We considered the TR proposals as very detailed with frequent references to the underlying standard. The level of detail provided should allow preparers to apply the responses to their situations.	Respondent agreed so there was no response required by staff.
4	EPA	Agree	EPA officials in our financial reporting and financial policy areas reviewed the below referenced Exposure Drafts. At this time, we have no comments to offer.	Respondent agreed so there was no response required by staff.
5	Education	No Answer		Respondent did not answer this question so there was no response required by staff.
6	DoD	Agree	We generally support the proposed Federal Financial Accounting Technical Release, "Implementation Guidance for Leases," (TR) and Statement of Federal Financial Accounting Standards (SFFAS), "Omnibus Amendments to Leases-Related Topics" (Statement). SFFAS 54 is a significant change in accounting practice. Therefore, the proposed TR would assist Federal agencies in implementing the new lease standard. The proposed Statement addresses implementation issues that were identified during the Leases Implementation Task Force, by clarifying ambiguities and improving consistency throughout SFFAS 54, SFFAS 57, and SFFAS 6. The updates and supplemental guidance help to more clearly distinguish arrangements that qualify as leases and related accounting and reporting treatment. By providing a multitude of different scenarios and responses, a reporting entity can gain a better understanding as to how SFFAS 54 will impact their organization once effective.	Respondent agreed so there was no response required by staff.
7	SSA	Agree	Yes. As a whole, we believe the Exposure Drafts (ED), <i>Omnibus Amendments to Leases-Related Topics</i> , and the Technical Release (TR), <i>Implementation Guidance for Leases</i> , provide additional clarity and comprehensive guidance for preparers in implementing, reporting, and disclosing the information required by the Statement of Federal Financial Accounting Standards (SFFAS) 54, <i>Leases</i> . In addition the TR, provides examples for some of the more complex lease situations that will aid preparers in properly implementing the Standard's requirements.	Respondent agreed so there was no response required by staff.
8	USDA - NRCS	Disagree	No, I do not support the proposed changes for lease accounting activities. For agencies where property is a significant and material part of their activities, such as GSA, then maybe it makes sense to capitalize the non-federal leases. But for other agencies where property leases are a tool needed to perform tasks with producers/customers for the mission, the accounting should be simple and cost efficient as previously stated. The agencies can continue to use their money for their mission and programs, and not have to spend significant dollars to enhance accounting and inventory systems, and to hire accountants. The USDA agencies lease office space in substantially all counties in the US to be close to our customers and business partners. The agencies do not have authority to purchase the buildings/office space under lease. The functional use is leasing expense and the simple straight-forward presentation is the annual lease expense and not a capital asset amount to amortize month by month. I think SFFAS is complicating a simple accounting transaction. Please see my earlier comments from Jan. 6, 2017.	The Board has already deliberated on the merits of this change in lease accounting, and staff does not recommend revisiting this issue.
9	DOI	Agree	As a whole, DOI generally supports the proposed Statement and TR proposal. The TR helps to clearly define a myriad of circumstances agencies may encounter. The document will become a valuable resource.	Respondent agreed so there was no response required by staff.

10	DOC	Agree	The Department generally supports the proposed Statement and TR proposals as a whole. The proposed Statement and TR provide additional guidelines and clarifications that will help the Department and agencies implement SFFAS 54 consistently and effectively. The Department has been actively participating in the FASAB workgroup that contributed to the development of these Exposure drafts.	Respondent agreed so there was no response required by staff.
11	AGA - CPAG	Agree	We are supportive of the proposed Statement (SFFAS 54) and the Technical Release (TR). While the implementation of the Statement will be challenging for agencies there are benefits to be provided to the agencies, the users of the financial statements and the public. We feel the Statement will provide increased line of sight into real assets, other property, and equipment, which the Agencies control through long-term financing contracts. The commitments associated with such contracts will become more visible, also increasing accountability over related interest costs. Centralized lease contracts and documentation will also provide the ability for agencies to improve data management practices and better manage vendors resulting in the opportunity to save costs. Additionally, the Statement will provide more clarity and consistency in financial statement presentations and audits of the agencies' financial statements.	Respondent agreed so there was no response required by staff.
12	NASA	Agree	The requirement to identify long-term lease liabilities (lessee) and lease revenue (lessor) and to standardize the accounting treatment of all leases (avoiding capital and operating leases) would theoretically simplify financial reporting. Although the concept of a lease appears to be simple, there are lingering technical issues that remain. As noted below, these include questions around consideration, economic benefit, and control.	Respondent agreed so there was no response required by staff.
13	GSA	Agree	Yes, GSA does support the majority of the proposed Statement and TR proposals, however we have identified numerous issues that we request be further addressed and clarified that we are submitting in this document for the Board's consideration. In addition, there are several issues we have identified in our response to QFR 3 that were not included in this current Omnibus and TR, and we request additional guidance. Third, we are very much interested in seeing illustrative guidance with suggested debit and credit impacts and recommend submission of draft materials for Agency review, as soon as possible. As always, GSA is willing to assist in any aspect of the lease standard that is needed by the FASAB.	Respondent agreed so there was no response required by staff.
14	ALN	Agree	Yes. The primary objective of placing more appropriate accounting on leases was because entities were focusing on keeping long term needed items off their balance sheets ... so much so, use cost became unreasonable, but not transparent to management and other stakeholders. Ultimately those who paid were harmed. Generally property owned without debt reduces overall ownership/use cost. Perpetual leasing property for long term needs generally results in unreasonable cost. Proper and transparent accounting is better for decision making.	Respondent agreed so there was no response required by staff.
15	GWSCPA - FISC	Agree	...the FISC generally supports the proposed Federal Financial Accounting Technical Release (TR) and the Statement of Federal Financial Accounting Standards (SFFAS) as a whole...	Respondent agreed so there was no response required by staff.
16	Treasury	Agree	Yes, Accounting for leases has been updated in the private sector and GASB, and lease recognition in the Federal Government, for financial statement purposes, needs to be updated to be more meaningful to federal financial statement users. We agree that this guidance will help statement preparers apply the new accounting and financial reporting requirements for leases.	Respondent agreed so there was no response required by staff.
17	VA	Agree	Yes	Respondent agreed so there was no response required by staff.
18	DOT	Agree	The Department of Transportation supports the proposed Statement (SFFAS 54) and the Technical Release (TR). We believe reporting the assets and liabilities associated with long term contracts signed to control underlying property and equipment more accurately communicate the rights, benefits and obligations of engaging in non-Federal lease transactions. We expect that SFFAS 54 will help Federal agencies manage such contracts, increase accountability over management and use underlying assets, as well as equip them with advanced decision-making capabilities (lease vs. buy) in light of interest expense incurred on these contracts. Other benefits will include improved management of related lease data, opportunities for automation of lease accounting/reporting functions.	Respondent agreed so there was no response required by staff.

19	KPMG	Agree	We support the efforts to clarify SFFAS 54 and provide guidance to assist reporting entities in implementing it.	Respondent agreed so there was no response required by staff.
20	DOJ	Agree	Yes, we agree with and support the proposed statement on leases and the proposed technical release. The new lease standard will align federal government accounting practices with state and local government and private industry standards. The proposed standard also provides specific guidance on certain aspects of accounting for leases, such as short-term leases and sale-leaseback transactions, that were not previously included in standards.	Respondent agreed so there was no response required by staff.
21	SEC	Agree	Yes	Respondent agreed so there was no response required by staff.
22	Kearney & Company	Agree	Kearney & Company, P.C. (Kearney) generally supports the proposed Statement and Technical Release proposals as a whole. The proposed changes keep the Federal Accounting Standards Advisory Board's (FASAB) treatment of leases relatively consistent with the Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB), the other two United States' accounting standard setting bodies. Shifting the focus to control of economic benefit from the underlying leased assets better captures the essence of the leasing transaction.	Respondent agreed so there was no response required by staff.
23	GAO	Agree	Yes. Generally we believe that the proposed amendments to Statement of Federal Financial Accounting Standard (SFFAS) 54 are appropriate, and that the proposed Technical Release (TR) for implementation of the lease standard will be helpful to the preparer and auditor community.	Respondent agreed so there was no response required by staff.
24	DOE	Agree	The Department of Energy (DOE) generally supports the proposed statement and TR proposals. Our comments include concerns expressed by Bonneville Power Administration regarding differences between FASAB and FASB standards for leases. This concern is documented separately throughout our response, along with other observations made during our review.	Respondent agreed so there was no response required by staff.
25	State	Agree	The Department of State (State) generally supports the proposed Statement and TR proposal as a whole. State recognizes that accounting for leases is an important topic and that the issuance of a new FASAB standard and guidance for this area is essential. Although Statement of Federal Financial Accounting Standard (SFFAS) 54, <i>Leases</i> , will result in significant implementation costs and challenges for agencies, we believe that the standard will ultimately benefit agencies by limiting opportunities to structure leasing transactions in a way that achieves a particular outcome, expanding internal controls over lease data, and improving comparability and understanding of financial statements and disclosures. We also appreciate FASAB's support in minimizing these implementation challenges for agencies. As a large agency that operates both domestically and internationally, State will be significantly affected by SFFAS 54, and we appreciate this opportunity to provide comments and draw attention to any concerns.	Respondent agreed so there was no response required by staff.

QFR 2: 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 3: Are you aware of any implementation issues that are not addressed in the proposed Statement and/or TR? Do any ambiguous areas remain that could lead to challenges with implementing SFFAS 54 requirements? If so, please provide examples of the issues and any references to applicable guidance, and/or topic area(s) related to the issues, and any potential solutions you propose.

Respondent Number	Applicable to TR, Omnibus, or Both	TR Paragraph Number	Omnibus Paragraph Number	Comment from Respondent(s)	Staff Analysis
7	Omnibus		7, 22	For clarity purposes, we believe it would be beneficial to amend paragraphs 7 and 22 of SFFAS 54, Leases, to add as 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.
13	Omnibus		10, 70	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.
2, 3, 11, 12, 18	Both	24	19.a	<p>Paragraph 22 states that cancelable 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 similar agreements are accounted for, which would incentivize an agency to structure its contracts differently. We would suggest to either consider any cancellation penalty to preclude that a period be considered cancelable or to add materiality guidance to the cancellation penalty.</p> <p>Regarding paragraph 22 which states the cancelable periods are excluded from the lease terms, 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 great that there is evidence 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 end-result. If the scenario described here is created to solely illustrate the concept of the lease term, we suggest revising the example to make it realistic. For example, add a noncancelable lease term.</p> <p>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 Par 17., assessment of lease term should incorporate factors relevant to how probable it such cancellation or termination option will be exercised</p> <p>The proposed language (referencing SFFAS 54 paragraph 19.a) states that periods for which both the lessee and the lessor 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 that they 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).</p> <p>DOT is of the view that penalties attached to cancellation 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 unilaterally or bilaterally by the lessee and/or lessor. 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.</p>	Staff recognizes this concern and will revisit this issue with the Board.
11, 18, 23	Both	36	23-24	<p>Deferral and subsequent amortization of concessions represents a significant level of work for the Agencies. In cases where concession might represent a free rent period, the Agencies will need to estimate the value of such concession (e.g., market rent or the cost to lessor), impute rent expense for the months of free rent all 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 see significant balance of concessions. We would like to encourage the board to reconsider such requirement and allow the Agencies an option to record short-term lease concessions when received.</p> <p>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 neither capitalization of the lease asset/liability nor relate concession is worth the operational burden of performing such capitalization</p> <p>The wording in the middle of the paragraph – "for rent due if payments are made subsequent to that reporting period" perhaps should be changed to - "due and unpaid at the end of the reporting period." The liability recognition is not a function of the subsequent payment made, rather a function of an obligation that existed at the end of the reporting period.</p>	Staff will propose this and will modify the Omnibus & TR accordingly.
13	Both	Possibly add one in intragovernmental section	31-33, 71	Other matters we considered related to intragovernmental lease incentives and concessions, include impacts on matching of rent expense we incur as a result of non-Fed leases versus Intragovernmental revenues. GSA leases, as a lessee, with non-Federal entities normally are long-term and require asset and liability recognition, with the lease expenses being generated by the amortization of the asset and interest expense over the lease term. Any such lease concessions will be included in the present value calculations and recognized as reduced/increased lease payments in the period provided. Application of rent revenue recognition in accordance with SFFAS 54 paragraph 31 would most impact the initial periods of a lease when decreased rents are passed along to Federal customers. This would result in marginally higher expense than revenue in early periods of a lease, with these conditions reversed for the later, majority of the lease term. Conversely, if the intragovernmental reductions were amortized in accordance with SFFAS 54 paragraphs 32 and 33 as rent incentives/commissions, there would be increased complexity and burden in the intragovernmental record-keeping to ensure the Federal entities maintain matching unamortized assets/liabilities and matching expense/revenue amortization from period to period to ensure such balances are properly eliminated in the government-wide financial statements prepared by the Department of Treasury. Significant intragovernmental differences exist today, under current accounting treatments that have proven very difficult to address when amortization of non-level rents is required.	Staff agrees and will propose a new Q&A in the TR to address this.

13, 24	Omnibus		42, 59	<p>we request additional clarity be added to the Omnibus on how measurement is impacted for leases with zero interest charged.</p> <p>Paragraph 18 - GSA Comments: As the lessor GSA's lease contracts with non-federal entities do not include an interest rate, but rather the terms are a negotiated amount per month, typically commercial market equivalent rents. This change in the omnibus is not clear that imputing an interest rate is required in instances of contracts that clearly have zero interest charged. Please see the related discussion provided in response to QFR 3 that may result in further changes to this SFFAS 54 paragraph 59.</p> <p>Adding clarification on which discount rate an entity should use would be helpful.</p>	Staff agrees and will propose an Omnibus amendment.
3, 13	Omnibus	64-65, 55, 83, 86, 90		<p>In addition, we are concerned the term “deferred revenue” does not meet the federal definition of that term and ask the Board to consider another liability account, perhaps an account payable, as more appropriate.</p> <p>This paragraph uses the term “deferred revenues” for the recognition of lease incentives received from a lessor. Since these amounts are not related to revenue recognition and will ultimately be amortized as expenses, we suggest changing the term to either “deferred expenses” or “deferred liabilities” to ensure such amounts are distinguishable in accounting records from deferred revenue amounts.</p>	Staff agrees. Proposing an additional omnibus candidate.
13, 23	Both	96-98	93	<p>Paragraph 96 - GSA Comment: We request additional discussion be added for this and the following question to provide clarity regarding SFFAS 54 paragraph 93 requirements to both treat lease-leasebacks as net transactions, yet also to disclose the lease and 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 disclosure requires separate reporting, it seems contradictory that the accounting treatment requires recording of the net transactions. Clarity is requested to indicate whether an entity would be expected to maintain its records as if the leases were independent and then record financial statement adjustments to offset/net the assets, liabilities, revenues and expenses that the components produce.</p> <p>Paragraph 97 - GSA Comments: Please refer to the related comments to 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 very difficult and burdensome to record net transactions.</p> <p>Paragraph 98 - GSA Comments: GSA expects the accounting treatment for non-fed lease-leaseback transactions in accordance with SFFAS 54 to be quite complex. This topic would greatly benefit from an illustration of debits and credits that would be applied by entities to ensure proper understanding.</p> <p>We suggest clarifying the applicability of paragraph par. 93 of SFFAS 54 to an intragovernmental lease-leaseback transaction and why, in the example provided, this is not an in-substance financing of the building. If the Board determines to make any modifications to par. 93 of SFFAS 54, conforming changes, as appropriate, should be made to the proposed TR as well.</p>	Staff agrees and may propose an Omnibus amendment.
9, 13	Omnibus		25 FN5, SFFAS 6 par 26A, SFFAS 5 par 43A	<p>suggest reviewing footnote 5 that references Paragraph 26 of SFFAS 6. Is this is referencing the correct paragraph.</p> <p>We are concerned that the normal application of SFFAS 6 is for assets where a purchase price is known. Further, SFFAS 6 is silent regarding measurement of such asset values. Given that SFFAS 6 is silent in these respects, we request further guidance be included with the proposed Omnibus Statement to provide the basis for measuring assets when an outright purchase price for this type of leased asset is not known, or provide the appropriate references to accounting standards or guidance where this issue is addressed.</p>	Staff agrees. Proposing an additional omnibus candidate.
9	Omnibus		SFFAS 6, par 18	<p>The updated SFFAS 6 does not mention leases that transfer ownership should be considered PP&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?</p>	Staff agrees and will modify the Omnibus accordingly.
10, 23	Omnibus		SFFAS 6, par 18	<p>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&E be deleted. The Department believes that leasehold improvements should continue to be reported as PP&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&E does not also address to agencies where leasehold improvements would be reported on the Balance Sheet.</p> <p>We question whether leasehold improvements should be stricken from par. 18 of SFFAS 6. As leasehold improvements are tangible assets that generally are consistent with the definition of property, plant and equipment in paragraph 17 of SFFAS 6, it would appear appropriate in most circumstances to include leasehold improvements as a subcomponent of property, plant and equipment. However, if the Board determines that leasehold improvements should not be part of property, plant and equipment, we suggest that the Board (i) make such exclusion explicit in SFFAS 6 paragraph 19, and (ii) provide guidance as to how leasehold improvements should be reported. In a related matter, it is not clear how leasehold and lessor improvements should be treated for non-intragovernmental leases. While paragraphs 34 and 35 of SFFAS 54 provide guidance for leasehold and lessor improvements as part of intragovernmental leases, they are not clearly discussed in relation to non-intragovernmental leases.</p>	Staff agrees and will modify the Omnibus accordingly.

2, 9	Omnibus		SFFAS 6, par 18	<p>While we understand a permanent lease may not meet the criteria to give rise to a lease liability and lease asset, we believe it should still be treated as a lease for disclosure purposes.</p> <p>The draft Land D&S paragraph 6.e 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&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.</p>	Staff is proposing an edit to the Omnibus to SFFAS 6, par 18.
10	BFC			<p>The Department would like to see if FASAB can address the substantially differing treatment of leases between SFFAS 54 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.</p>	Staff will include a discussion about this in the Basis for Conclusions.

Respondent Number	Applicable to TR, Omnibus, or Both	Comment from Respondent(s)	Staff Analysis
2, 8, 11, 18, 25	Omnibus	<p>For leases that score as capital under OMB A-11 and which require budget authority to be obligated upfront, we are concerned of how that difference may impact the obligation process.</p> <p>Two potential issues or concerns are: (1) the determination for materiality for USDA agencies, which will be the primary driver for the number of capital leases; and (2) the funding required to cover the obligations assuming that the principal for each capital lease has to be fully funded for the term of the lease. I expect the need for “no year funding” will increase dramatically with the SFFAS 54 implementation on 10/1/2023 as each federal agency will now need to fund its obligations for the full term of each capital lease, as many of the non-federal leases will change from operating leases to capital leases. Is there an alternate approach that will not require full term funding? If not, does the committee have an estimate as to how much additional funding will be needed?</p> <p>Overall, SFFAS 54 breaks the alignment between OMB A11 and SFFAS requirements as far as lease scoring/classification. We encourage the board to initiate a joint project with the OMB to ensure simultaneous compliance with both frameworks is feasible for the Federal Agencies by October 1, 2023.</p> <p>SFFAS 54 lease term determination and lease classification are pervasively different than the OMB A11 Appendix A and B lease scoring models. Please elaborate how Agencies should present the discrepancy between budgetary funding vs. proprietary liabilities (lessee)/ receivables(lessor) associated with these leases in their financial statements (or disclose/narrate in notes thereto).</p> <p>In addition, FASAB standards and Office of Management and Budget (OMB) Circular A-11 currently have the same lease reporting criterion (e.g., capital and operating). Specifically, if State scores a lease as an operating lease under the current scoring criteria, we charge the expenses directly to the occupying agency if there is only one, or share the costs in ICASS if there are occupants from multiple agencies. We treat capital leases as government-owned assets and fully fund them from our leasehold account. However, because OMB is not currently anticipating making changes to its Circular A-11 scoring criteria to match the revised FASAB requirements, agencies will be required to follow two separate sets of requirements once FASAB implements SFFAS 54, instead of just one. We are concerned with the increased cost and workload involved in maintaining two separate data sets (i.e., books) of more than 16,000 leases. State estimates that the cost of the system improvements needed to capture the data required to comply with SFFAS 54 will be substantial.</p>	While staff does not recommend any changes to the omnibus, a discussion about this will be included in the Basis for Conclusions.
6	Omnibus	SFFAS 54, paragraph 2 provides guidance regarding identification of the underlying asset as follows: “To qualify as a lease, the underlying asset typically should be identified by being explicitly specified in a contract or agreement.” However, an asset also can be identified by being implicitly specified at the time that the asset is made available for use by the lessee. Leases include contracts or agreements that, although not explicitly identified as leases, meet the definition of a lease. This wording is similar to the wording in Financial Accounting Standard Board Accounting Standards Codification (ASC) 842. During the review of ASC 842, and implementation guides offered from national Certified Public Accountant firms, we found several examples of manufacturing arrangements for which implicit leases were identified because the “lessee” is the only customer for a particular facility or piece of equipment. See the following example: In the Defense community, there may be contracts for weapon systems or components for which the only customers are within DoD. If SFFAS 54 is interpreted in a manner similar to ASC 842, we are concerned that manufacturing contracts for products unique to the Defense community may be identified as containing embedded leases. Clarification in the Statement (level A guidance) is preferred to ensure audit firms do not question departure from outcomes seen under ASC 842 and GASB 87. Due to similarities in the definitions, similar outcomes would be expected.	Staff does not recommend any changes to the definition of a lease. The concept of embedded leases brings accountability to these transactions, and staff does not recommend changing that. Whether or not these particular examples contain embedded leases would depend on the details of each contract.
6	Omnibus	Certain privatization efforts within DoD create limited-liability corporations (LLC) and qualify as public-private partnerships (PPP). Existing federal owned facilities are often transferred to an LLC (in which defense components have an equity interest). Under ASC 970-323-30-3 such transfers qualify as sales--the facilities are de-recognized and the new investment is recognized at fair value under the equity method. In addition, land may be provided to the LLC through a ground lease. These individual transactions are part of a larger investment in a PPP; however, they may appear to qualify as sale-leasebacks or lease-leasebacks covered in SFFAS 54. We believe such arrangements would be best addressed through forthcoming FASAB guidance on PPP recognition and measurement rather than through a segmented application of SFFAS 54. To avoid confusion during SFFAS 54 implementation, could FASAB clarify that such PPP arrangements are excluded from the scope of SFFAS 54? Guidance in the Statement is recommended in order to resolve this scope issue.	Staff disagrees that P3s should be excluded from SFFAS 54.

11, 18	Omnibus	<p>Given the likely pervasive impact of SFFAS 54 on the Agencies' financial reporting processes, controls, technology and financial statements, we would encourage the Staff to further consider incorporating a package of practical expedients into SFFAS 54 transition model similar to that of ASC 842, Leases. Such expedients package could include the removal of requirements to reassess the following as of transition date:</p> <ul style="list-style-type: none"> .Whether expired or pre-existing contracts contain leases .Lease classification for any expired or pre-existing leases .Initial Direct Costs (IDCs) for pre-existing leases .Bifurcation of lease and non-lease components on pre-existing leases <p>The practical expedients would only be applicable to the extent legacy balances would be compliant with relevant legacy lease accounting/reporting requirements of SFFAS 5 and SFFAS 6.</p> <p>We disagree with requirement to reassess all pre-existing contracts at transition date. To ease the burden of transition and help encourage timely compliance, we believe consideration should be given to introduction of certain practical expedients into the SFFAS 54 Implementation requirements. Similar to expedients provided by the FASB in implementing ASC 842, we would like FASAB to consider eliminating requirements to reassess lease identification and/or classification as it relates to expired or pre-existing contracts, or bifurcate lease and non-lease components on such contracts.</p>	Staff does not agree with these practical expedients. There are many long-term leases in the federal government and allowing these practical expedients would entail having agencies follow two different accounting principles for many years. It would also make it impossible for the users of the financial statements to see the full picture of leasing arrangements on the balance sheet until all pre-existing lease terms ended.
13	Omnibus	There are numerous accounting issues not addressed in SFFAS 54 related to intragovernmental leasehold improvement transactions. For instance where GSA is the landlord for other Federal agencies, IA's, (known as Reimbursable Work Authorizations (RWA)), are used as the ordering and agreement mechanism, apart from rental Occupancy Agreements, when GSA's Federal customers fund leasehold improvements. These improvements can be to buildings owned by GSA or subleased by GSA. GSA has discussed this topic with members of the FASAB staff and we understand issues have been referred to the Board as topics requiring further attention. As an example, SFFAS 54 intragovernmental leases paragraph 34 is silent regarding lessor accounting treatment of reimbursements received from a lessee for leasehold improvements. The underlying considerations are more complex where subleasing is involved. Additionally, there is an outstanding interagency dispute between GSA and multiple other federal entities over proper accounting treatment for customer/tenant RWA funded leasehold improvements. There were several issues involved in that dispute where further clarity in FASAB leasing standards are needed to reach resolution. This is a significant issue for GSA as well as our Federal tenant customers that are not addressed in the current SFFAS 54, the TR, or this Omnibus. We request attention be given to clarify the standards in these areas to ensure entities have sufficient time to implement any further changes with the rest of SFFAS 54 requirements	Staff is working on an interpretation on this topic.
13	Omnibus	Paragraph 14 - GSA Comment: SFFAS 44 is applicable to G-PPE, and with the change to SFFAS 6 via this Omnibus Statement, leased assets (of lessees) are not considered G-PPE. If SFFAS 44 requirements are intended to be applied to a lessees leased assets, we recommend that SFFAS 44 be amended to clearly state RTU leased assets are subject to recognition of Impairment.	Paragraph 53 of SFFAS 54 states that leased assets are subject to SFFAS 44. Staff believes that this reference is sufficient and does not recommend amending SFFAS 44 at this time
13	Omnibus	Paragraph 25- GSA Comment: This revision from the previous FASAB position expressed in SFFAS 57, to now move lease assets out of the PP&E category has pros and cons. While leases do not provide ownership interests as do traditional purchases of PP&E, their underlying purpose for a lessee is to acquire use of PP&E and the ability to obtain its benefits. Similarly leasehold improvements reflect the cost of tangible assets that an entity pays for and obtains use of, but does not own. We do also support a clear distinction in the financial presentation of lease assets (and lease liabilities) from other PP&E, given their unique nature and difference in measurement. We believe such distinction is preferable to be within the PP&E category, and to retain the existing language in SFFAS 6, as amended by SFFAS 57. However, we also do not have a strong objection to this proposed Omnibus change to remove leased assets from PP&E reporting, and into separate presentation on the Balance Sheet, given the very unique measurement/valuation requirements that are not comparable to traditional PP&E.	Staff prefers to keep leased assets separate from PP&E as reflected in the current omnibus proposal.
19	Omnibus	The proposed Statement adds footnote 2A to paragraph 5 of SFFAS 54. Footnote 2A provides requirements for the accounting for payments prior to commencement of the lease term. We believe this requirement should be provided in a separate paragraph in SFFAS 54 rather than a footnote.	The Board deliberated on this in June 2020 and decided to include this information in a footnote. Staff does not recommend revisiting this issue.
19	Omnibus	We suggest including the definition of "annual lease expense" in SFFAS 54 rather than in the answer to question 16 of the proposed TR.	Staff recommends leaving this in the TR as it can be interpreted from the Statement.
19	Omnibus	We suggest including the additional factors to consider in determining whether a renewal option is probable of being exercised in paragraph 20 of SFFAS 54 rather than in the answer to question 25 of the proposed TR.	Staff disagrees with this approach as the factors listed in the TR are just additional examples and not intended to be a complete list.
19	Omnibus	We suggest adding the requirement that lease term reassessments consider the entire lease term to SFFAS 54 rather than including it in the answer to question 28 of the proposed TR.	Staff does not believe this is necessary as the only time SFFAS 54 allows for using the remaining lease term is at the initial implementation of SFFAS 54. Beyond that, the lease term is clearly defined in paragraphs 14-19 of the Statement.
19	Omnibus	We suggest adding the requirement that lease receivables be amortized using the interest method to paragraph 60 of SFFAS 54 rather than in the answer to question 67 of the proposed TR.	Staff does not believe this is necessary.
23	Omnibus	We suggest that the Board consider clarifying in the lease standard whether SFFAS 4, as amended, should be applied to leases and, if so, how it should be applied.	Staff does not believe this is necessary.

24	Omnibus	Align the right to control criteria (SFFAS 54, paragraph 3) with FASB ASC 842-10-15-4. Add guidance on Build-to-Suit and Failed Sale Leaseback situations similar to ASC 842-40-55-5. Add a policy for the election to combine lease and non-lease components similar to ASC 842-10-15-37. BPA encourages the Board to consider aligning SFFAS 54 with ASC 842 to avoid imposing burdensome dual reporting requirements on agencies subject to both commercial and governmental activity. BPA intends to follow FASB GAAP in instances where SFFAS 54 is not aligned with FASB per SFFAS 34.	The Board made the decision to align most closely with GASB, not FASB in developing SFFAS 54. Staff does not recommend any changes to this.
24	Omnibus	Page 5 Paragraph #3. The treatment proposed, under SFFAS 54, diverges from the treatment under FASB and the guidance for payments during construction or build-to-suit guidance. For dual filers this will create a significant reporting burden.	The Board made the decision to align most closely with GASB, not FASB in developing SFFAS 54. Staff does not recommend any changes to this.

QFR 4: Are there specific aspects of these proposals that you favor or otherwise wish to provide comments on?			
Ref Number	Respondent Name/Organization	Summary Response	Staff Notes
1	HUD	The scenarios provided in the Technical Guidance are very specific and will assist Federal Agencies when researching the scenarios that are applicable to the agency.	No staff response necessary.
2	DHS	DHS does not have any specific aspects of these proposals that we favor or have any other further comments.	No staff response necessary.
3	AGA - FMSB	We have no additional comments.	No staff response necessary.
4	EPA	EPA officials in our financial reporting and financial policy areas reviewed the below referenced Exposure Drafts. At this time, we have no comments to offer.	No staff response necessary.
5	Education		Respondent did not answer this question so there was no response required by staff.
6	DoD	The TR has over 100 helpful scenarios. Each of these scenarios has a reasoning section that helps explain how to treat various business events when dealing with the public or as an intragovernmental transaction. By providing these scenarios and explanations, reporting entities are more likely to be able to find guidance that is applicable to their specific business events, thus lowering the possibility of unaddressed ambiguous outcomes.	No staff response necessary.
7	SSA	We do not have any additional comments.	No staff response necessary.
8	USDA - NRCS	There are a variety of lease-related transactions covered in SFFAS 54 and the TR, that will create new entries recorded in accounts 1810, 1819 and 2940, which are the existing capital lease accounts. It may be beneficial to revamp / enhance the BOC codes and chart of accounts to facilitate the monitoring of the entries for the capital lease transactions. It would also be beneficial to have examples for the more popular lease transactions, showing the calculations for the leased asset, lease liability, etc., and the accounting transactions. Some agencies do not have experience with capital leases and the examples would be valuable reference material.	Treasury is working on the USSGL accounts that will be needed for SFFAS 54 implementation. Staff is working on illustrations to help with this.
9	DOI	No. 4, Regarding inter-entity transactions (intragovernmental leases), would this only apply if the lessor is the true owner of the building. For DOI, several office spaces and warehouse storage spaces are leased through GSA via an Occupancy Agreement (OAs) (GSA holds the commercial leases for these OAs). Does GSA have ability to provide agencies/bureaus with the Inter-entity cost information to book as the financing source, for GSA owned buildings? Does this section apply to the intragovernmental OAs where GSA has the commercial lease? The market rent for space leased via GSA OAs is not currently made available to the lessee.	This comment is related to the TR and has been considered by the AAPC.
10	DOC	The Department favors the scenario-based TR because it helps users visualize and understand the intent of the Standard itself.	No staff response necessary.
11	AGA - CPAG	We appreciate the detailed examples provided within the TR and we favor detailed examples especially for more complex transactions to provide guidance to financial statement preparers, practitioners, auditors, and financial statement users.	No staff response necessary.
12	NASA	See QFR1 and QFR2, response paragraph 1 and 2 above.	No staff response necessary. These comments are addressed on the other tabs in this file.
13	GSA	Other than where GSA has provided comments for consideration in QFR 2 and QFR 3, we agree with the proposed answers to the other questions in the TR and with changes proposed in the Omnibus statement.	No staff response necessary.
14	ALN	This is exceptionally good work for those who worked on the document, it is clear and comprehensive.	No staff response necessary.
15	GWSCPA - FISC		Respondent did not answer this question so there was no response required by staff.
16	Treasury	No.	No staff response necessary.
17	VA	Paragraph 34 discusses installation of equipment for energy efficiency, and the treatment of the agreement when the agency will own the equipment at the end (the agreement will be treated as a purchase, instead of a lease). Energy Savings Performance Contracts and Utility Energy Service Contracts are two examples of agreements that are commonly used among Federal agencies for this purpose. It may be worth mentioning these two types of agreements specifically in the example, in order to make it easier for agencies to easily find the relevant example.	This comment is related to the TR and has been considered by the AAPC.
18	DOT	Please refer to above for comments.	No staff response necessary. These comments are addressed on the other tabs in this file.
19	KPMG		Respondent did not answer this question so there was no response required by staff.

20	DOJ	The organization of the technical release is somewhat odd. While we believe it aims to match the flow of the SFFAS 54 release, this provides choppy and somewhat confusing guidance. We suggest that the technical release continue to organize by sections in the same way the standard is organized; however, each section should be reorganized to start with the basics (definitions of terms, explanations of criteria, etc.) and place specific examples of implementing the lease standards at the end of the section (such as those in paragraphs 5 and 6 in the section “Scope and Definition”).	This comment is related to the TR and has been considered by the AAPC.
21	SEC	No	No staff response necessary.
22	Kearney & Company	Kearney has no additional comments.	No staff response necessary.
23	GAO	Please see our specific comments on the proposed Statement and TR below.	No staff response necessary. These comments are addressed on the other tabs in this file.
24	DOE	DOE does not have any comments for this item.	No staff response necessary.
25	State	State has no additional comments.	No staff response necessary.