



Federal Accounting Standards Advisory Board

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**OMNIBUS AMENDMENTS 2021**  
LEASES-RELATED TOPICS

**Statement of Federal Financial Accounting Standards XX**

**Month DD, 2021**

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

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

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## SUMMARY

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This Statement of Federal Financial Accounting Standards (SFFAS) 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 Statement addresses those issues by clarifying ambiguities and improving consistency throughout SFFAS 54, SFFAS 5, SFFAS 6, and SFFAS 57, with omnibus amendments. It also amends and rescinds certain requirements in SFFAS 54 that were determined to be less likely to yield meaningful information.

### MATERIALITY

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The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.<sup>i</sup> 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.

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<sup>i</sup> 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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# STANDARDS

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## SCOPE

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1. This Statement applies to federal entities that present general purpose federal financial reports, 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 5, *Accounting for Liabilities of the Federal Government*, 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

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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 <sup>2A</sup>

[FN 2A - For leases other than short-term leases and intragovernmental leases, the lessee would account for payments prior to commencement of the lease term as advances paid in contemplation of the future receipt of the lease asset. The lessor would account for receipts prior to commencement of the lease term as advances received. These advances would be accounted for in a manner consistent with SFFAS 1, \*Accounting for Selected Assets and Liabilities\*, par. 57-61, prior to the lease commencement date. Such advances 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. For example, Llease concessions may 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. Rental increases, rental decreases, lease incentives, and lease concessions should be recognized when incurred as increases/reductions to lease rental expense. ~~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.~~

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. Rental increases, rental decreases, lease incentives, and lease concessions should be recognized when incurred as increases/reductions to lease rental income. ~~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.~~

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

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.<sup>5</sup>

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, rental decreases, lease incentives, and lease concessions should be recognized by the lessee and lessor when incurred the expense in the period as increases/reductions to lease rental expense and income, respectively of the increase.

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:

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**<sup>7</sup> (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 is not stated in the lease, the lessor's estimated incremental borrowing rate should be used.~~<sup>9A</sup>

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

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:

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, ~~L~~lease concessions may include rent holidays/free rent periods, ~~or reduced rents, or commission credits.~~

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

[FN 10A - The treatment of lease incentives and lease concessions is addressed in par. 23-24 for short-term leases and par. 31 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 displayed in the financial statements ~~accounted for~~ 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

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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:

### Contracts or Agreements That Transfer Ownership<sup>20A</sup>

43A. The amount to be recorded as a liability under a 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).

FN 20A – See SFFAS 54 par. 25.

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);
- Land rights that do not meet the definition of a lease;<sup>18</sup> and
- Contracts or agreements that transfer ownership<sup>18A</sup>

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

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 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

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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.

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## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

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

### PROJECT HISTORY

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- A1. Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, was issued in April 2018 with an effective date for reporting periods beginning after September 30, 2020. The effective date was later amended by SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, to reporting periods beginning after September 30, 2023.
- A2. In August 2019, FASAB and the Accounting and Auditing Policy Committee (AAPC or “the Committee”) commenced projects on their technical agendas to identify implementation challenges and develop guidance related to SFFAS 54.
- A3. The AAPC assembled a large group of task force members—over 100 stakeholders—as a means of crowdsourcing the identification and analysis of a wide breadth of potential SFFAS 54 implementation topics. The task force provided input to project staff by:
  - a. Reviewing project staff’s content analysis of questions and answers contained in Governmental Accounting Standards Board (GASB) *Implementation Guide 2019-3, Leases*, and determining the extent to which each question and answer contained therein was applicable in the federal context.<sup>1</sup>
  - b. Suggesting implementation topics not addressed in GASB 2019-3.
  - c. Identifying and discussing potential omnibus SFFAS amendment candidates that may need to be issued in tandem with the implementation guidance for purposes of providing clarification or closing loopholes. Such candidates were then relayed to FASAB for its consideration.
  - d. Providing editorial and technical comments and illustrative examples on draft versions of implementation guidance questions and answers developed by staff. The working drafts were developed and reviewed, by topic area, over the course of several task force meetings organized by project staff.

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- 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 B: ABBREVIATIONS

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AAPC	Accounting and Auditing Policy Committee
FAF	Financial Accounting Foundation
FASAB	Federal Accounting Standards Advisory Board
GASB	Governmental Accounting Standards Board
GPFRR	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

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