

# Memorandum

## Leases

October 14, 2021

To: Members of the Board  
From: Ricky A. Perry, Jr., Senior Analyst  
Thru: Monica R. Valentine, Executive Director  
Subject: **Draft Interpretation of paragraphs 42 and 59 of SFFAS 54** (Topic C)

### INTRODUCTION

The briefing material includes staff's analysis of a draft Interpretation of Federal Financial Accounting Standards (Interpretation) developed by staff in consultation with the leases implementation task force and subject matter experts.

Staff continues to research and develop other guidance candidates in consultation with the task force. Other guidance candidates suitable for including in this Interpretation may emerge as research continues; however, paragraphs 42 and 59 of Statement 54 are the only Interpretation candidates recommended at this time.

### REQUEST FOR FEEDBACK BY OCTOBER 25

**Prior to the Board's October meeting**, please review the attached staff analysis and recommendations (Attachment 1), along with the draft Interpretation (Attachment 2), and respond to the ensuing questions by no later than October 25th.

Please provide responses to Mr. Perry at [PerryRA@fasab.gov](mailto:PerryRA@fasab.gov), with a cc to Ms. Valentine at [ValentineM@fasab.gov](mailto:ValentineM@fasab.gov).

### NEXT STEPS

**Pending Board member feedback**, staff will continue to further research and edit the draft Interpretation, develop questions for respondents, and draft a preliminary basis for conclusions for subsequent Board feedback.

While staff researches other guidance candidates, the draft Interpretation may be tabled for a short period. Based on additional staff research, the Board may elect to add other candidates to the draft Interpretation if any are identified; otherwise, this proposal—once finalized—could be released in a joint exposure draft in tandem with other proposals currently under research.

## ATTACHMENTS

1. Staff recommendations and analyses
2. *[Draft] Interpretation XX, Interpretive Guidance for Leases*
3. Leases project plan

## REFERENCE MATERIAL

1. [GASB 87, Leases](#), paragraphs 23 and 29; and [GASB 96, Subscription-Based Information Technology Arrangements](#), paragraphs 18 and 24 are mentioned in staff's analysis of paragraph 2 of the draft Interpretation.
2. [OMB Circular A-94, Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs](#); [OMB Circular A-94, Appendix C: Discount Rates for Cost-Effectiveness, Lease-Purchase, and Related Analyses for OMB Circular A-94](#); and [OMB M-21-09: 2021 Discount Rates for OMB Circular No. A-94](#) (December 21, 2020) are mentioned in staff's analysis of paragraphs 5, 7, and 8 of the draft Interpretation.

## Staff Analysis

### Leases

October 14, 2021

#### CONTEXT

As part of the leases implementation guidance project, staff has identified one candidate suitable for an Interpretation of Federal Financial Accounting Standards (Interpretation) under the Board's Rules of Procedure. Interpretations clarify SFFAS provisions.

#### SUMMARY OF RECOMMENDATIONS AND ANALYSES

Staff recommends the attached draft Interpretation of paragraphs 42 and 59 of Statement 54, as amended, based on the analysis below.

Staff, along with members of the task force, found that the principle-based guidance of these Statement 54 paragraphs, while appropriate, would likely result in inconsistent incremental borrowing rate selections and estimation methodologies across the federal government. Additional clarity around these provisions will be helpful. In particular, clarity surrounding the selection of rates, the frequency or timing of selections, and the methodology for interpolating or extrapolating estimations when published rate terms do not precisely align with lease terms.

#### ANALYSIS

##### Paragraphs 1-2 – Scope section:

SCOPE
<p>1. This proposed Interpretation 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, <i>The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board</i>.</p> <p>2A. This proposed Interpretation provides clarifications for applying the provisions of SFFAS 54, <i>Leases</i>, along with other existing Statements, when accounting for leases. The scope of SFFAS 54 is enumerated under paragraphs 1 through 5 of that Statement.</p> <p>2B. [Staff note: Option B would be to omit paragraph 2A above]</p>

Paragraphs 1-2 of Attachment 2 describe the scope of the draft Interpretation. Paragraph 2 of displays two options: 2A and 2B.

- Option 2A may require additional omnibus amendments if the Board decides to leverage the proposed Interpretation for purposes of clarifying potential future Statements on other lease-like transactions in the future. For example, GASB uses similar language for estimating incremental borrowing rates in both GASB 87, *Leases*, paragraphs 23 and 29, and GASB 96, *Subscription-Based Information Technology Arrangements*, paragraphs 18 and 24. Although option 2A reinforces the Interpretation's scope, that information can be inferred without the description. Option 2B would reduce the number of omnibus amendments needed in the event that the scope is broadened by the Board to include other lease-like transactions in the future.

### Recommendation

Staff prefers option 2B for reasons summarized above. However, including the paragraph could be helpful to some users. Therefore, staff defers to the Board's preference with the belief that either approach would be acceptable to a majority of users.

#### **Question for the Board #1:**

- Do Board members have any feedback on paragraphs 1-2? Please provide any feedback regarding your preference, if any, between options 2A or 2B.

### Paragraphs 3-4:

#### **[PROPOSED] INTERPRETATION OF PARAGRAPHS 42 AND 59 OF SFFAS 54**

- SFFAS 54, paragraphs 42 and 59, as amended, state the following:

42. The future lease payments should be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, 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.

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||

- These paragraphs provide that federal lessees' and lessors' estimated incremental borrowing rates are based on Department of the Treasury borrowing rates for securities of similar maturity to the term of the lease, unless the entity has its own borrowing authority||

Paragraphs 3-4 summarize the provisions of Statement 54 being interpreted for purposes of focusing the reader. They are merely descriptive and do not provide interpretive guidance.

Paragraph 5:

5. Department of the Treasury borrowing rates for securities of similar maturity to the term of the lease should be selected based on Treasury Yield Curve Rates or “Constant Maturity Treasury” (CMT) rates. CMT rates are calculated by the Federal Reserve Bank of New York based on prices for all actively traded U.S. Treasury securities. The curve is known as the constant maturity yield curve because it gives an estimate of the yield on Treasury securities at the maturities shown even if no current Treasury security has a remaining maturity exactly equal to one of those points.

Paragraph 5 proposes interpretive guidance for identifying the Department of the Treasury borrowing rate for securities of a similar maturity to the term of the lease using the appropriate source (unless the reporting entity has its own borrowing authority).

- Staff does not recommend providing a hyperlink to the source of the rates, as the link may change over time.
- Inclusion of this paragraph would assist federal reporting entities in selecting rates from the correct source consistently.
- Some task force members inquired with staff about “why the Board is not considering just referencing OMB Circular A-94, instead of issuing the attached interpretation guidance.”
  - Staff reminded those members that the proposal under task force discussion was a pre-decisional early draft. In addition, staff expressed the view that [OMB Circular A-94, Appendix C](#), although similar in some respects, is non-GAAP.
  - The scope of [OMB Circular A-94](#) is enumerated under paragraph 4 of the Circular. The scope does not include federal financial reporting, albeit some of the intended purposes described overlap with some of the intended purposes of Statement 54.
  - Circular A-94 is only updated once per year. When implementing paragraphs 42 and 59 with each new and remeasured lease contract and agreement, it may be more appropriate for agencies to pull interest rates on a more frequent basis. Although Statement 54 is not specific in defining “for securities of a similar maturity to the term of the lease,” in staff’s view, interest rates should likely be updated more frequently for purposes of measuring and remeasuring lease liabilities throughout the reporting period. Circular A-94 rates can become stale in an environment with falling, rising, or volatile interest rates.
- The text in paragraph 5 is based on information provided on Treasury.gov on the following pages (last accessed: October 12, 2021):

<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

<https://home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics/treasury-yield-curve-methodology>

## Recommendation

Staff recommends paragraphs 3-5, as presented. A majority of the task force supported the paragraphs, as presented. Staff incorporated minor clarifying and technical edits from task force members, along with an Assistant Director from GAO's Applied Research and Methodologies Center for Economics (ARM-CE) team.

### **Question for the Board #2:**

2. Do Board members have any feedback on paragraphs 3-4 or paragraph 5?

## Paragraph 6:

- 6A. **[Option A]** The rate selected should be reasonably consistent with the CMT rate published on the date of initial lease liability recognition, in accordance with paragraphs 40 and 42, or the CMT rate published on the date the discount rate is updated, accordance with paragraph 46 and 48.
- 6B. **[Option B]** The rate selected should be consistent with the CMT rate published on the date of initial lease liability recognition, in accordance with paragraphs 40 and 42, or the CMT rate published on the date the discount rate is updated, accordance with paragraph 46 and 48. If there are no published rates on that day, the most-recent previous daily rate should be used. For example, for a lease beginning on Sunday, January 9, the appropriate CMT rate from the most-recent trading day, Friday, January 7, would be used.

There are two options for the Board's consideration for paragraph 6.

- Option 6A provides additional flexibility to federal reporting entities based on materiality and interest rate trends and volatility, while option 6B provides for a more precise methodology for selecting rates on the appropriate date (see highlights above).
- Task force members supported option 6A, although some did not oppose option 6B. GSA task force members, for example, were supportive of option 6A, but shared their plans to use robotic process automation to pull interest rates daily when implementing Statement 54. Thus, GSA's implementation plans will comply with either option.
- Staff seeks Board member views on these options.
- The Board may wish to expose both options and obtain feedback from exposure draft respondents.



## Recommendation

Staff prefers option 6A but also acknowledges that it could be beneficial to present both options in an exposure draft, along with a question for respondents regarding preference, and obtain feedback from the community.

### **Question for the Board #3:**

3. Do Board members have any feedback on paragraph 6? Please provide any feedback regarding your preference, if any, between options 6A or 6B.

## Paragraph 7:

- 7A. **[Option A]** Reporting entities should not interpolate CMT rates published by Treasury. When determining the CMT rate to select based on the term of the lease, reporting entities should round down to the nearest maturity term with a published CMT rate. For example, reporting entities should select the 7-year CMT rate as the estimated incremental borrowing rate for a lease with a 9-year term (assuming that Treasury only publishes CMT rates for 7 years and 10 years at the time of selection).
- 7B. **[Option B]** When a published CMT rate is not available for the lease term, reporting entities may select a rate that is reasonably consistent with the published rates. When determining the rate based on the lease term, reporting entities may round down to the nearest maturity term with a published CMT rate, interpolate the rate for the period between two published rates, or round up to the closest published rate.

There are two options for the Board's consideration for this paragraph.

- Option 7A provides less flexibility in selecting the appropriate borrowing rate, requiring stepped interpolations. A majority of task force members supported this option. This option would ensure consistent rate selections across government. It would also omit subjective judgments and biases in rate selections and be more cost-effective to implement and audit.
  - Staff received concurrence from a subject-matter expert from the assistant director of GAO's ARM-CE team on this approach.
  - This approach is not consistent with the methodology provided for under [OMB Circular A-94, Appendix C](#), which allows agencies to use of a linear (rather than stepped) interpolation for program terms falling between Treasury maturities.
- Option 7B provides more flexibility for selecting the incremental borrowing rate. A considerable minority of task force members, including GSA, supported this option. Staff is concerned that the degree of subjectivity and the cost of implementing and auditing a requirement under this approach would not be worth the benefits and could unnecessarily introduce biases in estimates.

For example, option 7B would allow two reporting entities with a 29-year lease term beginning at the same time to select a 30-year rate rather than the 20-year rate that would otherwise be selected by both reporting entities under option 7A. These two agencies could select approaches because of the degree of judgement allowed. A high degree of flexibility in interpolating or selecting which approach to use when selecting an incremental borrowing rate would remain present. This could be viewed as inconsistent the fundamental intent of developing the Interpretation candidate. It could also be viewed as inconsistent with some of the Board's intended objectives to reduce implementation burden and enhance consistency in applying Statement 54 requirements.

### Recommendation

Staff recommends option 7A.

#### **Question for the Board #4:**

4. Do Board members have any feedback on paragraph 7? Please provide any feedback regarding your preference, if any, between options 7A or 7B.

### Paragraph 8:

8. Reporting entities should not extrapolate the maximal CMT rate term when the term of the lease exceeds the maximal CMT rate term; rather, reporting entities should simply select the maximal CMT rate term. For example, reporting entities should select the 30-year CMT rate as the estimated incremental borrowing rate for a lease with a 75-year term (assuming that the maximal CMT rate term is 30 years at the time of selection).

This paragraph would prohibit reporting entities from extrapolating beyond the 30-year rate when estimating their incremental borrowing rates.

- Task force members almost unanimously supported this paragraph.
- This approach is generally consistent with [OMB Circular A-94, Appendix C](#), which provides that programs with durations longer than 30 years may use the 30-year interest rate.
- This approach would ensure consistency of federal reporting entities' methodologies for discounting long-term leases and reduce implementation costs and judgement associated with extrapolating beyond 30 years when estimating incremental borrowing rates. Such a requirement would introduce significant subjectivity and be more costly to implement and audit.



- Staff recommends principle-based language that does not cite 30 years in the base requirement, but instead as an example. Maximal Treasury maturities could conceivably increase or decrease in the future.

### Recommendation

Staff recommends paragraph 8, as presented.

#### **Question for the Board #5:**

5. Do Board members have any feedback on paragraph 8?

### Additional issues for consideration

- A. When circulating the draft Interpretation to the task force, staff received comments from two task force members requesting guidance for estimating incremental borrowing rates for reporting entities that have their own borrowing authorities with the Department of the Treasury or the Federal Financing Bank. As of right now, the draft Interpretation is silent on this aspect of paragraphs 42 and 59 (see highlights below).

#### 3. SFFAS 54, paragraphs 42 and 59, as amended, state the following:

42. The future lease payments should be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, 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.**

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.**

Staff agrees with the comments and will continue to research approaches for providing interpretive guidance for entities with their own borrowing authorities, or—if necessary—proposing omnibus amendments. Board feedback on forthcoming proposals can be provided at a later meeting.

- B. One task force member requested guidance for estimating incremental borrowing rates for leases when one or some components have a stated interest rate but other components do not have a stated interest rate. Staff does not believe that level-A Interpretation guidance is necessary to address this question. Such a question does

not possess the attributes of an Interpretation in staff's view, but would instead be a candidate for additional level-C Technical Release guidance. Staff intends to convene the AAPC to explore potential updates to Technical Release 20 once at least 10-15 strong question-and-answer candidates are identified and developed for potential addition.

**Question for the Board #6:**

6. Do Board members have any feedback or suggestions with respect to these two additional issues and staff's plans for addressing them?



Federal Accounting Standards Advisory Board

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# INTERPRETIVE GUIDANCE FOR LEASES

Interpretation of Federal Financial Accounting Standards **XX**

**Early Draft**

Written comments are requested by [90 day comment period]

**Month day**, 2022

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

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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## Federal Accounting Standards Advisory Board

### ISSUE DATE

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

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Interpretation of Federal Financial Accounting Standards, entitled *Interpretive Guidance for Leases*. Specific questions for your consideration appear on page **Error! Bookmark not defined.**, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by **DUE DATE**.

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

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

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

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

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott  
Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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Pending

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

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Pending

### MATERIALITY

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The provisions of this proposed Interpretation would not need to be applied to information if the effect of applying the provision(s) is immaterial.<sup>1</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

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<sup>1</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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DRAFT

## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Interpretation before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Interpretation. Because FASAB may modify the proposals before a final Interpretation is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

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

All responses are requested by [insert date].

Q1. Pending

Q2. Pending

## PROPOSED INTERPRETATIONS

### SCOPE

1. This proposed Interpretation 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*.
- 2A. This proposed Interpretation provides clarifications for applying the provisions of SFFAS 54, *Leases*, along with other existing Statements, when accounting for leases. The scope of SFFAS 54 is enumerated under paragraphs 1 through 5 of that Statement.
- 2B. [Staff note: Option B would be to omit paragraph 2A above]

### [PROPOSED] INTERPRETATION OF PARAGRAPHS 42 AND 59 OF SFFAS 54

3. SFFAS 54, paragraphs 42 and 59, as amended, state the following:

42. The future lease payments should be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, 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**.

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**.

4. These paragraphs provide that federal lessees' and lessors' estimated incremental borrowing rates are based on Department of the Treasury borrowing rates for securities of similar maturity to the term of the lease, unless the entity has its own borrowing authority.

## INCREMENTAL BORROWING RATE ESTIMATION

5. Department of the Treasury borrowing rates for securities of similar maturity to the term of the lease should be selected based on Treasury Yield Curve Rates or “Constant Maturity Treasury” (CMT) rates. CMT rates are calculated by the Federal Reserve Bank of New York based on prices for all actively traded U.S. Treasury securities. The curve is known as the constant maturity yield curve because it gives an estimate of the yield on Treasury securities at the maturities shown even if no current Treasury security has a remaining maturity exactly equal to one of those points.
- 6A. **[Option A]** The rate selected should be reasonably consistent with the CMT rate published on the date of initial lease liability recognition, in accordance with paragraphs 40 and 42, or the CMT rate published on the date the discount rate is updated, accordance with paragraph 46 and 48.
- 6B. **[Option B]** The rate selected should be consistent with the CMT rate published on the date of initial lease liability recognition, in accordance with paragraphs 40 and 42, or the CMT rate published on the date the discount rate is updated, accordance with paragraph 46 and 48. If there are no published rates on that day, the most-recent previous daily rate should be used. For example, for a lease beginning on Sunday, January 9, the appropriate CMT rate from the most-recent trading day, Friday, January 7, would be used.
- 7A. **[Option A]** Reporting entities should not interpolate CMT rates published by Treasury. When determining the CMT rate to select based on the term of the lease, reporting entities should round down to the nearest maturity term with a published CMT rate. For example, reporting entities should select the 7-year CMT rate as the estimated incremental borrowing rate for a lease with a 9-year term (assuming that Treasury only publishes CMT rates for 7 years and 10 years at the time of selection).
- 7B. **[Option B]** When a published CMT rate is not available for the lease term, reporting entities may select a rate that is reasonably consistent with the published rates. When determining the rate based on the lease term, reporting entities may round down to the nearest maturity term with a published CMT rate, interpolate the rate for the period between two published rates, or round up to the closest published rate.
8. Reporting entities should not extrapolate the maximal CMT rate term when the term of the lease exceeds the maximal CMT rate term; rather, reporting entities should simply select the maximal CMT rate term. For example, reporting entities should select the 30-year CMT rate as the estimated incremental borrowing rate for a lease with a 75-year term (assuming that the maximal CMT rate term is 30 years at the time of selection).

## EFFECTIVE DATE

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

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

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this **proposed Interpretation**. 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 proposed **Interpretation**—not the material in this appendix—would govern the accounting for specific transactions, events, or conditions.

This **Interpretation** may be affected by later Statements **or Interpretations**. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements **or Interpretations** that **affect** this **Interpretation**. The authoritative sections of the Statements **and Interpretations** 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 **or Interpretation** for the rationale for each amendment.

### PROJECT HISTORY

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A1. A new paragraph style for this appendix.

A2. Test

A3. Test

## APPENDIX B: ABBREVIATIONS

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CFR	Consolidated Financial Report of the U.S. Government
CMT	Constant Maturity Treasury
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards



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	<u>Deferral</u> SFFAS 58	<u>Implementation</u> <u>Guidance</u> TR 20 Updates To TR 20	<u>Omnibus</u> SFFAS 60 SFFAS TBD	<u>Interpretations</u>	<u>SIG</u>	Training / Outreach
FY 2020	<del>Draft</del> <del>Exposure Period</del> <del>Finalize</del> <del>Issuance</del> SFFAS 58 ISSUED	Draft	Research Draft			Provide
FY 2021		<del>Exposure Period</del> Finalize / Approve Research	<del>Exposure Period</del> Finalize / Approve Research	Research Draft	Research Draft	Provide
FY 2022 Q1		Issuance Research	Issuance Research Draft	Research Draft	Pending / tabled	Draft FY 22 content
FY 2022 Q2		Research	Draft Exposure Period	Draft Exposure Period		Provide
FY 2022 Q3		Research	Exposure Period Finalize	Exposure Period Finalize		Provide
FY 2022 Q4		Research	Finalize / Approve	Finalize / Approve		Provide
FY 2023 Q1		Research	Issuance	Issuance		Draft FY 23 content
FY 2023 Q2						Provide
FY 2023 Q3						Provide
FY 2023 Q4						Provide
FY 2024 Q1	SFFAS 54 effective					

Updated: OCTOBER 2021