

## Memorandum

### Leases

August 1, 2022

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

#### INTRODUCTION

The briefing material includes staff's analysis of comment letters received on the Board's leases omnibus proposal and recommended changes 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 AUGUST 18

**Prior to the Board's August meeting**, please review all comment letters (Reference Material, item 1), along with the attached staff analysis and recommendations (Attachments 1, 3, and 4), and respond to the ensuing questions no later than August 18.

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 finalize the proposal. Staff hopes to pre-ballot soon after the August meeting. In order to issue the final pronouncement in the first quarter of fiscal year 2023 (Attachment 2), staff must receive ballots and provide review copies to the sponsors by October 1, 2022.

#### ATTACHMENTS

1. Staff recommendations and analyses
2. Leases project plan
3. Working draft SFFAS, marked since exposure draft with staff-recommended edits

4. QFR responses, with staff analysis and notes

## REFERENCE MATERIAL

1. [Compendium of comment letters](#)
2. [\*Omnibus Amendments: Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-leasebacks\*](#)
3. [Statement 54](#)
4. [Statement 60](#)



## Staff Analysis

### Leases

August 1, 2022

#### CONTEXT

As part of the leases project, the Board has identified and proposed a few additional omnibus amendments to facilitate implementation of SFFAS 54 and enhance the clarity of the Statement.

FASAB has received 16 responses from the following sources:

	FEDERAL	NON-FEDERAL	TOTAL
Associations		2	<b>2</b>
Auditors/Accounting Firms	1	1	<b>2</b>
Preparers and financial managers	11		<b>11</b>
Individuals			
Others		1	<b>1</b>
<b>Total</b>	<b>12</b>	<b>4</b>	<b>16</b>

Members are asked to read the comment letters prior to reviewing the staff analysis and recommendations of the letters below. Comment letters are posted online at [https://fasab.gov/leases\\_omnibus\\_ED\\_2022\\_comment\\_letters/](https://fasab.gov/leases_omnibus_ED_2022_comment_letters/). On this page, respondents are identified in the order that their letters were received.

Staff thanks the leases implementation task force and the wider community for their continued assistance in identifying implementation issues and responding to exposure documents.

#### SUMMARY OF RECOMMENDATIONS AND ANALYSES

A majority of respondents (15 of 16) indicated general support of the proposed Statement. These respondents cited a number of reasons for their support.

Some respondents provided insightful comments and suggested improvements to the proposals. Staff agrees with several comments and suggestions submitted, and recommends 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 agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide the rationale for your answer.

- Fifteen of 16 respondents supported the proposals to address discounting of lease liability and receivable payment streams, as reflected in Attachment 4.
- Five of the 15 supportive respondents (#9, 11, 12, 13, and 15) requested changes to improve the clarity of certain technical terms and phrases and improve consistency across interacting paragraphs. Staff recommends implementing the suggested revisions provided by two of these five respondents (#11 and 15), as reflected in Attachment 3 and analyzed in Attachment 4. These revisions are generally consistent with the comments and suggestions provided by the other three respondents (#9, 12, and 13), and they greatly enhance the clarity and consistency of the guidance.
- One respondent (#10) identified an additional inconsistency in SFFAS 54 that was not previously identified by staff during research:

*“The definition of lease term in Paragraphs 14-21 exclude a possible impact of purchase options (explicitly noted in parag. 19 (b)). On the other hand, definition of lease liability for lessee positions includes cash flows associated with probable purchase options. This inconsistency becomes more pervasive with a reference to “lease term” within the guidelines provided for interest rates to be used in the absence of contractually specified rates.”*

Staff concurs with the respondent regarding the observed inconsistency in sub-paragraphs 19.a and 19.b of SFFAS 54. The language in these sub-paragraphs of SFFAS 54 is similar to, but organized differently compared to, GASB No. 87, paragraph 12, which results in the need for clarification through an omnibus action. Left unamended, this inconsistency could result in some confusion when measuring the term of leases with purchase options. Staff recommends implementing a revision to paragraph 19.b of SFFAS 54 to clarify the matter, as reflected in Attachment 3 (see par. 3).

- Respondents also provided editorial comments to improve the clarity and precision of certain technical terms and phrases and the consistency across interacting paragraphs. In reviewing these, staff identified an additional inconsistency in terminology between paragraphs 44 and 61 of SFFAS 54.

Staff recommends aligning the phrasing of paragraph 61 (on lessor remeasurement) with the phrasing of paragraph 44 (on lessee remeasurement, unamended).

*“61. The lessor should remeasure the lease receivable at subsequent financial reporting ~~dates~~ ~~periods~~ if one or more of the following changes have occurred at or before that financial reporting ~~date~~ ~~period~~, based on...”*

*“44. The lessee should remeasure the lease liability at subsequent financial reporting ~~dates~~ if one or more of the following changes have occurred at or before that financial reporting ~~date~~, based on...”*

### Recommendations

Staff recommends several improvements to the omnibus proposals based on comment letters received, as reflected in Attachment 3.

#### **Questions for the Board #1-2:**

1. Do members have any questions or concerns as it relates to the responses received in response to QFR #1?
2. Do members agree with staff's recommendations for changes to the leases omnibus? What feedback do members have?

### Analysis of Responses to Question for Respondents #2:

*QFR 2. Do you agree or disagree with the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraphs 8-9, and the Board's basis for such proposals? Please provide the rationale for your answer.*

All 16 respondents indicated support of the proposals to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in Attachment 4.

One respondent (#9) partially agreed and expressed concern regarding the SFFAS 7, paragraphs 314-315 footnote citation. Staff does not recommend making any changes to the footnote, but asks that the Board give the comment consideration and verify concurrence with staff's analysis (see Attachment 4).

**Questions for the Board #3-4:**

3. Do members have any questions or concerns as it relates to the responses received in response to QFR #2?
4. Do members agree with staff's recommendation to finalize these proposals without further revision?

Issues for which staff recommend no actions:

1. A few respondents provided implementation updates for the Board's awareness. Staff does not recommend Board actions in response to these comments.
2. Two respondents (10 and 14) asked that the Board consider addressing consistency in rate selections across all lessee/lessor positions. One of these two respondents (14) did not support the Board's proposal to allow for discretionary use of round up/down or interpolations due to concerns around variability across its sub-components. Staff does not recommend Board action in response to this concern (see Attachment 4).

**Question for the Board #3:**

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

## Leases Project Plan

	<u>Deferral</u> SFFAS 58	<u>Implementation Guidance</u> TR 20 Updates To TR 20	<u>Omnibus</u> SFFAS 60 SFFAS TBD	<u>Leases-Related</u> <u>Intragovernmental RWAs</u> TB TBD	Training / Outreach
FY 2020	Draft Exposure Period Finalize Issuance SFFAS 58 ISSUED	Draft	Research Draft		Provide
FY 2021		Exposure Period Finalize / Approve Research	Exposure Period Finalize / Approve Research	Research Draft	Provide
FY 2022 Q1		Issuance TR 20 ISSUED Research	Issuance SFFAS 60 ISSUED Research Draft	Research Draft	Draft FY 22 content
FY 2022 Q2			Draft	Draft	Provide
FY 2022 Q3		Research	Draft Exposure Period	Draft Exposure Period	Provide
FY 2022 Q4		Research	Exposure Period Finalize / Approve	Exposure Period Finalize	Provide
FY 2023 Q1		Research Draft	Issuance	Finalize / Approve	Draft FY 23 content
FY 2023 Q2		Draft		Issuance (original plan)	Provide
FY 2023 Q3		Exposure Period Finalize / Approve Issuance			Provide
FY 2023 Q4				Behind schedule. Projected issuance.	Provide
FY 2024 Q1	SFFAS 54 effective				

Last updated: July 2022. The leases-related intragovernmental RWAs sub-project is currently running behind schedule. The omnibus project is running ahead of schedule.



OMNIBUS AMENDMENTS 202X  
LEASES-RELATED TOPICS

Statement of Federal Financial Accounting Standards **XX**

~~Exposure Draft~~

**Month XX**, 2022

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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](#)
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~~May 9, 2022~~

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

~~The Federal Accounting Standards Advisory Board (FASAB or "the Board") requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards titled *Omnibus Amendments: Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-Leasebacks*. Specific questions for your consideration appear on page 3, 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 July 8, 2022.~~

~~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.~~

~~We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. 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,~~

A handwritten signature in black ink that reads "George A. Scott". The signature is written in a cursive, flowing style.

~~George A. Scott  
Chair~~

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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This Statement of Federal Financial Accounting Standards (SFFAS) ~~would amend~~<sup>s</sup> certain paragraphs in SFFAS 54, *Leases*, and SFFAS 60, *Omnibus Amendments 2021*.

In August 2019, the Accounting and Auditing Policy Committee—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 clarify existing leases guidance rather than through a Technical Release. The issues require modifications to the existing Statements to provide technical clarifications and address areas of concern. A substantial majority of those issues were addressed in SFFAS 60; however, a few outstanding implementation issues required additional research and deliberations.

This ~~proposal would~~ Statement addresses those outstanding issues by certain ongoing areas of concern not addressed in SFFAS 60, including clarifying

- clarifying the Board’s original intent for discounting lease liabilities and receivables, which should result in a more consistent and comparable application of SFFAS 54, *Leases*, requirements;
- interactions between paragraphs 19.a and 19.b of SFFAS 54; and
- clarifying the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and disclosure requirements applicable to them.

### MATERIALITY

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The provisions of this Statement ~~of Federal Financial Accounting Standards would not need~~ not to 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.

<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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## QUESTIONS FOR RESPONDENTS

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

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

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

All responses are requested by July 8, 2022.

This proposed Statement would address certain ongoing areas of concern related to leases implementation that were not addressed in SFFAS 60, *Omnibus Amendments 2021*, including

- clarifying the Board’s original intent for discounting lease liabilities and receivables, which should result in a more consistent and comparable application of SFFAS 54, *Leases*, requirements; and
- clarifying the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them.

**QFR1.** Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board’s basis for such proposals? Please provide the rationale for your answer.

**QFR2.** Do you agree or disagree with the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraphs 8-9, and the Board’s basis for such proposals? Please provide the rationale for your answer.

## 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*, and SFFAS 60, *Omnibus Amendments 2021*, by providing additional guidance, along with technical corrections and clarifications.

### AMENDMENTS TO SFFAS 54 AND SFFAS 60

3. Paragraph 19.b of SFFAS 54 is amended as follows:

19. In determining the lease term for both the lessee and lessor, the following specific provisions should be applied: ...

19.b If the lease provisions allow for the termination of a lease due to (a) the purchase of the underlying asset, (b) the payment of all sums due, or (c) the default on payments, these are not considered options to terminate for purposes of excluding cancelable periods from the lease term in accordance with paragraph 19.a.

4. Paragraph 42 of SFFAS 54 and the previously-issued amendment thereto (SFFAS 60, par. 19) are amended as follows:

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 interest rate should be based on the interest rate on marketable Treasury securities, at the commencement of the lease term (or at the subsequent financial reporting date in accordance with par. 44), with a similar maturity to the term of the lease-end of the lease term 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.

5. Paragraphs 42A-42C are added to SFFAS 54 as follows:

42A. If the interest discount rate is based on marketable Treasury securities, it should be consistent with the interest rate on marketable Treasury rate securities on the commencement of the lease term date of initial lease liability recognition, in accordance with paragraphs 40 and 42 (or the interest rate on marketable Treasury securities rate published on the subsequent financial reporting date the discount rate is updated, in accordance with par. 46 and 48). The interest rate may be based on a recent interest Treasury rate on marketable Treasury securities or historical average interest rate on

~~marketable for the Treasury securities~~ of a similar maturity to the ~~term of the lease-end of the lease term~~, provided that the ~~interest~~ rate is consistent with the ~~interest Treasury rate on marketable Treasury securities on the commencement of the lease term (or subsequent financial reporting date) the date of initial liability recognition (or the date the liability is updated)~~.

42B. When selecting an ~~interest rate based on marketable Treasury securities rate term~~ of similar maturity to the ~~term of the lease-end of the lease term~~, reporting entities may round ~~up or down~~ to the nearest maturity ~~term with a published rate, or~~ interpolate the ~~interest~~ rate for the period between two ~~maturities published rates, or round up to the nearest maturity term with a published rate~~. The methodology for selecting an ~~interest rate based on marketable Treasury security maturities rate terms and related rates, interpolating, and/or rounding up or down~~ should be consistent from period to period.

42C. Reporting entities should not extrapolate beyond the longest ~~published Treasury maturity-security term~~ when the lease term exceeds it; rather, reporting entities should select the longest ~~published Treasury maturity-security term rate~~. For example, if the longest ~~published Treasury maturity-security term at commencement of the lease term the time of selection~~ is 30 years, reporting entities should select the 30-year rate as the discount rate for a lease with a 75-year term.

6. Paragraphs 47 and 48 of SFFAS 54 are amended as follows:

47. A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the ~~interest rate on marketable Treasury securities rate~~ lessee's estimated incremental borrowing rate.

48. If the discount rate is required to be updated based on the provisions in paragraph 46, the discount rate should be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the ~~interest rate on marketable Treasury securities rate~~ with a similar maturity to the ~~term of the lease-end of the lease term~~ lessee's estimated incremental borrowing rate at the time the discount rate is updated should be used ~~(see par. 42-42C above)~~.

7. Paragraph 59 of SFFAS 54 and the previously-issued amendment thereto (SFFAS 60 par. 25) are amended as follows:

59. The future lease payments to be received should be discounted using the ~~interest~~ rate the lessor charges the lessee. If the interest rate is not stated in the lease, the ~~interest rate should be based on the interest rate on marketable Treasury securities, at the commencement of the lease term (or at the subsequent financial reporting date in accordance with par. 61), with a similar maturity to the term of the lease-end of the lease term~~ 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.

8. Paragraphs 59A-59C are added to SFFAS 54 as follows:



59A. ~~If the interest discount rate is based on marketable Treasury securities, it should be consistent with the interest rate on marketable Treasury rate securities on the commencement of the lease term date of initial lease receivable recognition, in accordance with paragraphs 56 and 59 (or the interest rate on marketable Treasury securities rate published on the subsequent financial reporting date the discount rate is updated, in accordance with par. 63). The interest rate may be based on a recent interest Treasury rate on marketable Treasury securities or historical average interest rate on marketable for the Treasury securities of a similar maturity to the term of the lease end of the lease term, provided that the interest rate is consistent with the interest Treasury rate on marketable Treasury securities on the commencement of the lease term (or subsequent financial reporting date) the date of initial receivable recognition (or the date the receivable is updated).~~

59B. When selecting ~~an interest rate based on marketable Treasury securities rate term of a similar maturity to the term of the lease end of the lease term~~, reporting entities may round up or down to the nearest maturity ~~term with a published rate, or~~ interpolate the interest rate for the period between two ~~maturities published rates, or round up to the nearest maturity term with a published rate~~. The methodology for selecting ~~an interest rate based on marketable Treasury security maturities rate terms and related rates, interpolating, and/or rounding up or down~~ should be consistent from period to period.

59C. Reporting entities should not extrapolate beyond the longest ~~published Treasury maturity security term~~ when the lease term exceeds it; rather, reporting entities should select the longest ~~published Treasury maturity security term rate~~. For example, if the longest ~~published Treasury maturity security term at commencement of the lease term the time of selection~~ is 30 years, reporting entities should select the 30-year rate as the discount rate for a lease with a 75-year term.

9. Paragraph 61 of SFFAS 54 is amended (without amendment to its sub-paragraphs or footnote) as follows:

61. The lessor should remeasure the lease receivable at subsequent financial reporting ~~dates periods~~ if one or more of the following changes have occurred at or before that financial reporting ~~date period~~, based on the most recent lease contract or agreement before the changes,<sup>10</sup> and the changes individually or in the aggregate, are expected to significantly affect the amount of the lease receivable since the previous measurement:

...

10. Footnote 11 to paragraph 89 of SFFAS 54 is amended as follows:

89. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback should include a transaction that qualifies as a sale<sup>11</sup> to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a transaction that qualifies as a sale should be accounted for as a borrowing by both the seller-lessee and the buyer-lessor.

FN 11 – See SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, par. 295 (with the public) and par. 314-315 (intragovernmental).

11. Paragraph 92 of SFFAS 54 is amended as follows:



92. A seller-lessee should disclose the terms and conditions of sale-leaseback transactions as part of ~~in addition to~~ the disclosures required of a lessee (par. 37 or 54, as applicable). A buyer-lessor should disclose the terms and conditions as part of ~~provide~~ the disclosures required of a lessor (par. 38 or 67, as applicable).

#### EFFECTIVE DATE

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

<p>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, <i>Objectives of Federal Financial Reporting</i>, chapter 7, titled <i>Materiality</i>, for a detailed discussion of the materiality concepts.</p>
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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 proposed Statement—not the material in this appendix—would 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 Statements that affects this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of amending Statements for the rationale for each amendment.

### PROJECT HISTORY

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- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) issued SFFAS 54 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. FASAB and the Accounting and Auditing Policy Committee (AAPC) 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—to identify and analyze numerous SFFAS 54 implementation topics.
- 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 (ED) of an initial omnibus amendments proposal (the proposal was eventually approved and issued as SFFAS 60). The Board considered input provided by ED respondents and the task force during due process.
- A5. Some respondents and task force members requested additional guidance on the selection and use of incremental borrowing rate estimates to discount lease liabilities and receivables. One respondent suggested that the Board clarify whether sale-leaseback requirements under paragraphs 89-92 of SFFAS 54 apply to intragovernmental transactions (see SFFAS 60, Basis for Conclusions, par. A8.b and A8.d). The Board decided to address those outstanding issues through subsequent actions.
- A6. Following the issuance of SFFAS 60, the leases implementation task force recommended that the Board clarify numerous aspects of SFFAS 54, paragraphs 42 and 59, which provided for the use of estimated incremental borrowing rates to discount lease liabilities and receivables. These recommendations were consistent with those raised by respondents to the ED of SFFAS 60.

- A7. The Board considered numerous factors when evaluating paragraphs 42 and 59 of SFFAS 54 and developing omnibus amendments:
- a. Elements identified by task force members as requiring additional clarification
  - b. Technical implementation issues for entities with independent borrowing authorities
  - c. Cost-benefit considerations and qualitative characteristics of information in financial reports
    - i. Paragraphs 152-153 of Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, provide that accounting standards can have many different kinds of effects that must be considered, including effects on the activities of accountants and auditors. It also provides that the Board must be aware of these potential effects when considering the costs and benefits of any given accounting alternative. In this particular context, the Board considered potential effects on costs of implementation, auditability, and consistent application when assessing the level of detail needed.
    - ii. Paragraph 160 of SFFAC 1 provides that reliability can be affected by the degree of estimation in the measurement process and uncertainties inherent in what is being measured.
    - iii. Paragraph 164 of SFFAC 1 provides that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting practices.
  - d. Approaches used in the following documents
    - i. SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits* (par. 28-32)
    - ii. Governmental Accounting Standards Board (GASB) Statement 87, *Leases*<sup>1</sup>
    - iii. Financial Accounting Standards Board Accounting Standards Update 2021-09, *Discount Rate for Lessees that Are Not Public Business Entities*
- A8. The Board discussed its original intent to subject intragovernmental sale-leasebacks to the requirements of paragraphs 89-92 of SFFAS 54. The Board agreed that the original intent was not sufficiently clear due to an absence of references to intragovernmental transaction guidance, including paragraphs 314-315 of SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and paragraphs 37-38 of SFFAS 54.

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- A9. In light of these considerations, the Board agreed to propose omnibus amendments to clarify the discounting of lease liabilities and receivables (par. 42, 47-48, and 59 of SFFAS 54) and the scope and applicability of sale-leaseback requirements (par. 89-92 of SFFAS 54) to intragovernmental leases.

## SUMMARY OF OUTREACH AND RESPONSES

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- A10. The Board released an exposure draft (ED) proposal on May 9, 2022, for public comment, with comments requested by July 8, 2022. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.
- A11. Sixteen comment letters were received in response to the ED. Respondents were generally supportive of the proposed Statement. In response to comment letters, the Board identified and agreed upon further changes to improve the technical clarity the proposal and the related guidance in SFFAS 54.
- A12. Improvements and additional changes included:
- a. Improving consistency in terminology and linkage across interacting paragraphs to enhance clarity of the original omnibus proposals.
  - b. Adding explanatory language to the end of sub-paragraph 19.b of SFFAS 54 to clarifying that the sub-paragraph is strictly intended to interact with sub-paragraph 19.a rather than otherwise affect aspects of lease term measurements that are not relevant to paragraph 19.a provisions.
  - c. Aligning phrasing in paragraphs 44 and 61 of SFFAS 54.
- A13. The Board considered other input provided by respondents that did not result in further modifications to the Statement.
- a. A few respondents expressed concerns that paragraph 42B and 59B guidance may not be applied consistently to the leases in reporting entities' respective lease portfolios. The Board considered these comments and decided that the criteria for entities to follow *methodologies* consistently from period to period (as provided for under par. 42B and 59B) sufficiently provides for such consistency.
  - b. A few respondents requested that the Board directly reference or hyperlink to a source of marketable Treasury securities to facilitate compliance with the requirements. It is not the role of the Board to provide this information in its pronouncements. The Board must be mindful that information sources and hyperlinks can change, thus it cannot provide such information in its pronouncements.

## BOARD APPROVAL

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- A14. **Pending**

## APPENDIX B: ABBREVIATIONS

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AAPC	Accounting and Auditing Policy Committee
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FAF	Financial Accounting Foundation
GASB	Governmental Accounting Standards Board
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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Resp. No.	Organization
1	Visual Lease
2	Environmental Protection Agency (EPA)
3	Department of Housing and Urban Development (HUD)
4	Social Security Administration (SSA)
5	AGA Financial Management Standards Board (AGA - FMSB)
6	Department of Veterans Affairs (VA)
7	Department of the Treasury (Treasury), including the Internal Revenue Service (IRS)
8	National Aeronautics and Space Administration (NASA)
9	Department of Commerce (DOC)
10	Department of Transportation (DOT)
11	General Services Administration (GSA)
12	Greater Washington Society of CPAs, Federal Issues and Standards Committee (GWSCPA - FISC)
13	Department of Defense (DOD)
14	Department of Defense, Office of Inspector General (DOD OIG)
15	KPMG LLP
16	Department of State (DOS)

QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
1	Agree	<p>Visual Lease, LLC. supports the proposed amendments to address discounting lease liabilities and receivables. SFFAS 54’s requirement to use an explicit rate is unchanged; if no explicit rate is stated, an equivalent risk-free rate is expected to be utilized. The terminology provided in the proposed amendments is “based on marketable Treasury securities with similar maturity to the end of the lease term,” in essence the definition of a risk-free rate.</p> <p>Visual Lease, LLC. has observed that in the current private sector implementation of ASC 842, Leases, the new lease accounting standard issued by the Financial Accounting Standards Board (FASB), the use of a risk-free rate rather than a higher incremental borrowing rate (IBR) may have resulted in higher liability values (and therefore asset values) on organizations’ financial position. Additionally, Visual Lease, LLC. has observed that this effect could trigger debt service covenants and otherwise cause inconsistency in analytical comparability. However, Visual Lease LLC. believes that, while organizations may have to caveat their financing reporting requirements to lenders to highlight these factors in that QFR 1 may result in less accurate and consistent valuation of liabilities, the suggested methodology does reduce complexity and provides user prescriptiveness in ease of use and availability of input data, thereby facilitating compliance.</p> <p>Additionally, Visual Lease, LLC. observes two impacts regarding valuation of the lease liabilities and assets in practice: the applicability and accuracy of a specific rate to the entity in question, and the timeliness of the application of that rate. Namely,</p> <ul style="list-style-type: none"><li>• the discount rate applied could result in less accurate valuations if the entity has a higher cost of borrowing than the federal government rate.</li><li>• private sector administration of ASC 842, Leases, has shown that reassessments of incremental borrowing costs can be costly to ascertain and therefore are not necessarily “kept current”. In a stable interest rate environment that is not a significant matter, but in an evolving rate environment (such as 2022 is turning out to be), lack of updates can result in more frequent and severe errors that may not consider or sufficiently identify entity-specific risk.</li></ul> <p>Visual Lease, LLC. notes that the original wording in SFFAS 54 authorizing entities to use rates based on their own borrowing authority is expressly deleted in this exposure draft, removing calculations from actual costs, and resulting in less accurate valuations. Given the transparency of the Treasury Securities market and rate, and its availability to those entities subject to the FASAB (Federal Accounting Standards Advisory Board) standards, Visual Lease LLC. believes that the suggested changes enhance the process of calculation and result in an” always having up to date information available” situation when creating new or remeasurement calculations for lease accounting. Therefore, Visual Lease, LLC. supports the use of risk-free rates.</p> <p>Additionally, and as a practical matter regarding application of the risk-free rate, the revised guidance allows rounding up or rounding down to the nearest maturity date, or to interpolate between two dates. Extrapolating from the longest term (30 years) would not be permitted. Paragraph 42A references “historical average rates” and appears broad in context and may require further clarification. If it is meant that to approximate a rate if a date specific rate is not available, we believe that in today’s internet environment, detailed historical information is easily available so there likely would not be need for this.</p>	<p>Respondent expressed general support, noting that the proposals would reduce complexity through the use of risk-free rates.</p> <p><b>Respondent provided the following suggestions:</b></p> <p>&gt;&gt; Reference to "historical average rates" in par. 42A and 59A may not be necessary because historical rate information is easily available. There may not be a need for this option.</p> <p>While staff agrees with this critique, staff recommends keeping the flexibilities in par. 42A and 59A proposals in order to accomodate other reasonable implementation approaches that may employ historical averages.</p>
2	Agree	<p>Agree. The amendments provide additional context on which rates to use in calculations of leases. This allows for consistency of application and support for why a particular rate was used.</p>	<p>Respondent agreed, noting that the proposal provides for consistency in application and additional criterial support for rate selections.</p>



QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
3	Agree	The Department of Housing and Urban Development officially reviewed the FASAB ED Technical Release on Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-leasebacks for comment and we agree with the board's recommendations for implementation.	N/A
4	Agree	We concur with FASAB's proposed amendments to address discounting leases by providing that if the interest rate is not stated in the lease agreement, the interest rate should be based on marketable Treasury securities with similar maturity to the end of the lease term (or round down to the nearest Treasury maturity term with a published rate). In addition, we concur that the discount rate used should be consistent with the Treasury rate on the date of initial lease liability recognition.	N/A
5	Agree	<p>Yes. While we understand why the term "incremental borrowing rate" was originally used in the standard, most agencies do not normally borrow money, which makes application of the standard potentially confusing. We appreciate replacing the term with more specific instructions on determining the discount rate, which we believe is necessary to apply the standard to the federal environment. Further, we found the methodological options allowed by the standard to be practical and appropriate.</p> <p>We noted that the term "incremental borrowing rate" is included in the Appendix E glossary, and that the borrowing rate concept is also included in SFFAS 2 and 33. We were unclear from the exposure draft as to whether the term would be struck from the glossary. We were also unclear whether guidance in SFFAS 2 and 33 might be affected.</p> <p>Finally, we would encourage the Board to add examples in the implementation guidance that show where to find Treasury rate information and how the discount rate would be calculated. Examples and the source of the Treasury rate information would be a valuable aid to preparers and help ensure consistency in practice.</p>	<p>Respondent agreed.</p> <p><b>Respondent provided the following suggestions:</b></p> <p>&gt;&gt; The term incremental borrowing rate is in the glossary of the Handbook.</p> <p>&gt;&gt; Providing examples and the source of the Treasury rate information in implementation guidance.</p> <p>In the Handbook update that follows the issuance of this pronouncement (assuming it is approved and issued to remove the term), staff will remove the term "incremental borrowing rate" from the Appendix E glossary. Staff does not update the Handbook based on proposals to remove terms; only after final pronouncements.</p> <p>Staff does not believe it is appropriate for the Board to provide the aids and references suggested by the respondent, as these would be more suitable for Treasury and/or OMB to provide. This topic was discussed by the Board when developing the original proposal.</p>

QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
6	Agree	VA concurs with the proposed amendments, but with requests further clarification. VA would like clarification on selection of an appropriate discount rate when an interest rate is not stated in the lease contract. The standards state that the interest rate should be based on marketable Treasury securities, but do not specify a standard Treasury rate table to use. In addition, VA would request FASAB to consider other calculations or industry benchmarks for leases that may be more appropriate for non-federal leases, since the lessors would likely not be able to borrow at posted Treasury rates.	<p>Respondent agreed but requested: &gt;&gt;Further clarification on the source of Treasury rates &gt;&gt; Consideration of the use of other calculations or industry benchmarks for non-federal leases.</p> <p>Staff believes that interest rate selection guidance and sources based on the proposal would be more suitable for Treasury and/or OMB to provide.</p> <p>Respondent requests the Board to consider other calculations and benchmarks for discounting non-federal leases. The Board may wish to reconsider additional options for lessor rates, but the determination of interest rates implicit to the lease when a rate is not stated (as provided for under GASB 87 par. 47) is a complex and costly option, and staff believes it would be rare for reporting entities to elect that option. The Board considered this option when developing the original proposal, but elected to require risk-free rates when rates are not stated in the lease to enhance consistency in application.</p>
7	Agree	Agree: Providing guidance to use "...marketable Treasury securities with similar maturity to the end of the lease term", when the rate is not stated in the lease, provides consistency calculating and recording leases through the government. The use of Treasury securities interest rates with similar maturities will also provide comparability of lease agreements for the public and other users of Government financial statements.	N/A
8	Agree	Agree. The proposed amendments will provide greater consistency in the application of the standard with respect to the discount rate used, specifically, by eliminating the distinction between federal entities that may or may not have borrowing authority. Also, paragraphs 42A-42C provides clarifying guidance that will aid in determining the appropriate rate and the requirement to use a consistent methodology over multiple reporting periods.	N/A

QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
9	Agree	<p>The Department generally agrees with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54) as the amendments add useful clarifications. The Department does have the following requests and recommendation for FASAB consideration.</p> <p>1. The Department respectfully requests that a sentence be added to the end of paragraph 42B to the effect of: When there is a methodology change that is not consistent with the prior period, the reporting entity should disclose information about the change in methodology.</p> <p>2. The Department respectfully requests to include at the end of paragraph 42 the website(s) or other source(s) accessed to obtain the appropriate Treasury security rate. Furthermore, the Department respectfully requests to include an example on how to obtain Treasury security rates in an appendix to SFFAS 54 or as an amendment to Technical Release 20.</p> <p>3. Throughout the proposed amendments to SFFAS 54 contained in paragraphs 4,5, and 7, the Department recommends a consistent term be used regarding the marketable Treasury security rate. For example, several terms are used including Treasury rate, Treasury security term rate, and Treasury security rate.</p>	<p>1. Staff does not recommend the additional disclosure requirements following the exposure period for the following reason:</p> <p>The suggestion interacts with potential future Board projects on accounting changes and error corrections. Staff believes that changes in accounting estimate methodologies are best addressed more broadly through potential future projects reexamining SFFAS 21 .</p> <p>2. Staff believes that interest rate selection guidance and sources based on the proposal would be more suitable for Treasury and/or OMB to provide.</p> <p>3. Staff agrees with the respondent and will suggest revisions to improve the consistency in terminology in response to comments provided by respondents <b>11</b> and <b>15</b>.</p>

QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
10	Agree	<p>The Department of Transportation supports the proposed amendments to discount rate guidelines, however, there are various paragraphs we would like to see clarified and/or enhanced:</p> <p><b>Par 42:</b> The definition of lease term in Paragraphs 14-21 exclude a possible impact of purchase options (explicitly noted in parg. 19 (b)). On the other hand, definition of lease liability for lessee positions includes cash flows associated with probable purchase options. This inconsistency becomes more pervasive with a reference to “lease term” within the guidelines provided for interest rates to be used in the absence of contractually specified rates.</p> <ul style="list-style-type: none"><li>• For lessee positions: In the absence of a contractually specified interest rate, are the Agencies expected to use Treasury rates that are consistent with the term of a lease that is determined without any regards to probable purchase options? For example, for a 10-year lease with a probable purchase option available at the end of Year 5, are lessees expected to use marketable Treasury securities with a 5-year maturity or 10-year base term of lease (assuming no rate is specified per contract)?</li></ul> <p>We would like to recommend that the Board consider modifying the definition of lease term by including a reference to probable purchase options (applicable to lessees only; lessor treatment of purchase options does follow a different model). Alternatively, Board should consider adjusting proposed Par 42. Language to clarify what rates should be used for lessee positions with probable purchase options.</p>	<p>Par. 19.b is intended to be read in conjunction with par. 19.a (and par. 40.e). The lease term would not extend beyond a <i>probable</i> purchase option date for purposes of measuring the lease term and lease liability. Par. 19.b is intended to facilitate the inclusion of periods beyond the purchase option date <i>for purposes of determining whether or not par. 19.a applies</i> . The Board did not intend for periods beyond the purchase option date to be excluded from the lease term based on purchase options that are not probable of being exercised. Other termination clauses can trigger par. 19.a and the exclusion of cancellable periods from the lease term, but a purchase option could not trigger that for purposes of assessing whether or not the lessee side meets the par. 19.a (the lessor side is another interacting variable).</p> <p>Because par. 19.a and 19.b are presented as separate and distinct bullets (which differs from the presentation of analogous provisions under GASB 87 par. 12), the provisions of par. 19.b are subject to misinterpretation, as suggested by the respondent. The Board should clarify this matter through a relatively minor omnibus action so that the guidance is not misinterpreted. Additional guidance could also be provided through updates to TR 20.</p>

QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
10	Agree	<p><b>Par. 42A/59A:</b> Parg. 42A requires that the discount rate be “consistent” with the Treasury rate on the date of initial lease liability recognition. This is a taxing requirement, especially in at times of economic volatility. Compliance with this standard may warrant building of bots to minimize risk of human error, which will come at an additional implementation cost.</p> <p>Par. 42A goes on to allow alternatives, such as use of a historical average or recent Treasury rates, so long as such rates are “consistent” with the rate at the date of initial liability recognition. While we understand the alternatives are intended to introduce lenience, the concept of “consistent” is not defined anywhere in SFFAS or ASC frameworks. In other words, it is unclear how far back federal agencies can go to get a “recent” rate that is “consistent” with the rates as of date of initial lease liability recognition. As such, we do not believe introduction of the alternatives with a threshold of “consistent” brings further clarification to the Agencies or consistency in application of the standard.</p> <p>We would recommend that the Board consider one of the following adjustments to proposed guidance:</p> <p>A. Remove the requirement that you use the rate “on the date of initial liability recognition”. Such requirement is very precise and leaves the Agencies accountable to auditors for use of very specific dates (especially for those with high volumes of lease transactions, in a volatile economic platform). Instead, provide alternatives to the Agencies with defined parameters. Example, “recent” or “historical average” determined based on Treasury rates issued within the current reporting period.</p> <p>B. Remove references to any alternatives. In areas of management estimates and judgments, it is common practice that Agencies build their alternative methodologies beyond what is explicitly stated in SFFAS (e.g., impairment assessments, fair value estimates, etc.), to the extent such methodologies do not result in material misstatements. Each agency would build their alternatives based on what is practicable in their circumstances and assess whether such alternatives are reasonable for their financial statement users or not. This would (1) avoid limiting agencies to two alternatives, allow them to also consider use of weighted average rates (2) allow them to build a practicable solution that is also acceptable for audit.</p> <p><b>Par. 42B:</b> The range of options allowed within the proposed guidance may result in different rates being used by Agencies, especially considering the volatility of current markets. For example, a 25-year real estate lease with \$20M/annum fixed lease payments may be recorded at a lease liability of \$343M (at 30-year T-rate of 3.14%, as of X date) vs. \$334M (at 20-year T-rate of 3.38%, as of X date). If the intent is to provide flexibility (i.e., such difference is acceptable), we would recommend that the board also consider adding additional alternative allowing use of a single rate for all leases held by an Agency, that may be determined based on weighted average term of the Agency’s lessee and/or lessor positions. This would render the discount rate determination much more practicable and reduce cost of implementation.</p> <p>Par 42B also notes that methodology selected should be applied consistently from period to period. Also consider clarifying if the methodology selected should be consistently applied for all lessee/lessor positions.</p>	<p><b>42A:</b> Staff cannot reliably interpret the feedback provided by the respondent. The proposal is intended to provide flexibility in the implementation of par. 42 and reduce burden by clarifying Board intent and providing for reasonable methodologies for selecting and pulling rates. The respondent suggested that the proposed requirements are burdensome but then goes on to disagree with proposals intended to mitigate these burdens.</p> <p>The respondent also suggested that the concept of consistency is not defined, but the concept is defined under par. 163 of SFFAC 1. The respondents suggestions under item B would improve flexibility; however, the Board elected to emphasize consistency, comparability, and reliability in the proposal. No action recommended.</p> <p><b>42B:</b> Staff partially agrees with the position of the respondent regarding the importance of providing criteria for applying methodologies consistently across the lease portfolio; however, the proposal provides criteria for the methodology for selecting rates. As such, the proposal implies consistent application of methodology, which would apply to the lease portfolio. No action recommended, but staff will confirm Board concurrence on this matter.</p>

QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
11	Agree	<p>We agree with the Board’s conclusion that greater clarity is warranted to support users’ implementation of mechanisms for determining discount rates. We believe the recommended changes will support greater consistency amongst Federal reporting entities and promote more efficient techniques. However, we do recommend a few editorial changes to the proposed wording to further improve the guidance and prevent misunderstanding. The following are suggested changes for consideration by the Board.</p> <p><b>Par 42:</b> Our proposed edits to Paragraph 3 of the Omnibus are below. We are concerned that the phrase “to the end of the lease term” could be confusing.</p> <p>For example, if the lease term is changed from 10 years to 15 years in year 8 of the lease, what discount rate should be used when the modification is executed? Should it be 15 years to match the new lease term or 7 years to match the remaining lease term? If this is what you are trying to clarify, we would suggest using “remaining lease term” to make that more clear.</p> <p>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 interest rate should be based on marketable Treasury securities with similar maturity to the end of the lease term.</p> <p><b>Par 42A:</b> Our proposed edits to Paragraph 4 of the Omnibus are below. Most edits are clarifying in nature. The last portion of Paragraph 42A appears duplicative with the first sentence of the paragraph.</p> <p>We would like to clarify if the rate selected should be what was in effect on the date of the action or the rate that was published on that date. The rates are typically published each day at 4 pm ET for the prior business day but can further be delayed by weekends and holidays.</p> <p>The edit we recommend related to the discount rate to be used with modification is meant to clarify that the discount rate selected should be based on the effective date of the modification, not when the discount rate is updated in an accounting system. For example, a lease term may be modified effective February 1, but the paperwork is not completed and entered in the accounting system until February 20. We are trying to clarify that the discount rate selected should be reflective of the rates in effect on February 1, not February 20.</p> <p>We had no edits for Paragraph 42C.</p> <p>42A. <del>If the interest rate is not stated in the lease, the discount rate should be consistent with the Treasury rate on the date of initial lease liability recognition, in accordance with paragraphs 40 and 42 (or the Treasury rate in effect on the date of published on the date the lease modification discount rate is updated, in accordance with par. 46 and 48). The rate may be based on a recent Treasury rate or historical average rate for the Treasury security of a similar maturity to the end of the lease term., provided that the rate is consistent with the Treasury rate on the date of initial liability recognition (or the date the liability is updated).</del></p> <p>42B. When selecting a marketable Treasury rate term of similar maturity to the end of the lease term, reporting entities may round <u>up or down</u> to the nearest maturity term with a published rate, <del>or interpolate the rate for the period between two published rates, or round up to the nearest maturity term with a published rate.</del> The methodology for selecting marketable Treasury rate terms and related rates, interpolating, and/or rounding up or down should be consistent from period to period.</p>	<p><b>Par. 42:</b> Staff concurs with the proposed edit to the par. 42 proposal. The edit does not change the intent of the original proposal but prevents misinterpretations of it. "End of the lease term" is a point in time, while the guidance should be referencing a period of time in a manner that is harmonious with par. 2 of SFFAS 54. Staff will incorporate these changes and similar changes provided by respondent <b>15</b>.</p> <p><b>Par 42A and B:</b> Staff agrees with the proposed edits to enhance the clarity of the proposal. These edits do not substantive change the proposal but more precisely reflect the Board's original intent for the proposal. Staff will incorporate these changes and similar changes provided by respondent <b>15</b>.</p>



QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
11	Agree	<p>Our proposed edits to Paragraph 5 of the Omnibus are below. We had no edits to Paragraph 47. Our proposed edit to Paragraph 48 is clarifying in nature.</p> <p>48. If the discount rate is required to be updated based on the provisions in paragraph 46, the discount rate should be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the marketable Treasury rate with similar maturity to the <del>end of the modified</del> lease term lessee's estimated incremental borrowing rate <del>at the time the discount rate is updated</del> should be used (see par. 42-42C above).</p> <p>Staff note: GSA proposed mirroring edits to par. 59, 59A, and 59B in their comments. See comment letter.</p>	<p><b>Par. 48:</b> Staff agrees. The proposed edits avoid the assumption that the discount rate update and modification are synchronous. Staff will implement these changes and similar changes provided by respondent <b>15</b>.</p> <p>Staff agrees. Staff will implement these changes and similar changes provided by respondent <b>15</b>.</p>
12	Agree	<p>We generally agree with providing additional guidance to address discounting lease liabilities and receivables. However, we have the following comments:</p> <p>-The proposed amendments in paragraphs 42A and 59A may cause confusion and lead to inconsistent application because it is not clear what circumstances would lead reporting entities to use recent marketable Treasury securities rate or historical average rate instead of marketable Treasury securities rate with similar maturity to the lease term at lease inception.</p> <p>We recommend that the Board consider either clarifying this guidance or removing paragraphs 42A and 59A and incorporating the following revisions into paragraphs 42 and 59:</p> <p>"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 interest rate should be based on marketable Treasury securities with similar maturity to the end of the lease term <u>at lease inception (or the date the liability is updated)</u>."</p> <p>"59. The future lease payments to be received should be discounted using the rate the lessor charges the lessee. If the interest rate is not stated in the lease, the interest rate should be based on marketable Treasury securities with similar maturity to the end of the lease term <u>at lease inception (or the date the liability is updated)</u>."</p> <p>We recommend that paragraphs 42B, 42C, 59B, and 59C be moved to Technical Release No. 20, Implementation Guidance for Leases. While the information in these paragraphs is useful guidance to reporting entities during implementation, the ED is intended to provide principle-based requirements on the discount rate to be used.</p>	<p>Staff agrees with the respondent's comments on par. 42, but found that the proposed revisions suggested by respondents <b>11</b> and <b>15</b> clarify the same aspects of the proposal that were noted by the respondent. Staff recommends the revisions provided by respondent <b>11</b> and <b>15</b>.</p> <p>Staff disagrees with the respondent suggestions regarding par. 42B, 42C, 59B, and 59C, although staff agrees that the guidance provided is comparatively more detailed than other guidance in SFFAS 54. Staff notes that the guidance provided in these paragraphs will support the qualitative characteristics of comparability and consistency, while also providing some degree of reasonable flexibility to preparers. It will be beneficial to provide such guidance in level-A GAAP to ensure preparers and auditors do not judgmentally interpret such guidance as conflicting with level-A GAAP (which could happen if it were promulgated through level-C GAAP).</p>

QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
13	Agree	<p>DoD generally agrees with the proposed amendments in paragraphs 3-7 to address discounting of lease liabilities and receivables. The proposed amendments provide clarity on which interest rate should be used to discount lease liabilities and receivables (i.e., marketable Treasury securities with similar maturity to the term of the lease), if the interest rate is not stated in the lease. It also provides some flexibility in the methodology for selecting a marketable Treasury rate terms and related rates, by rounding up or down to the nearest maturity term with a published rate, or by interpolating the rate for the period between two published rates.</p> <p>Suggested edits: For clarity purposes, we would like to suggest some edits in the following sentence of the proposed paragraph 42A for SFFAS 54 (edits are denoted in <a href="#">blue</a>): “The rate may be based on a recent Treasury rate or historical average rate for the Treasury security of a similar <a href="#">maturity-period (future period for recent Treasury rates and past period for historical average rates)</a> to the end of the lease term, provided that the rate is consistent with the Treasury rate on the date of initial liability recognition (or the date the liability is updated).”</p> <p>We are suggesting to use the word “period” instead of “maturity” as it is not intuitive using historical average rate for some length of period in the future.</p> <p>Additionally, we would like to suggest some edits in the following sentence of paragraph 48 of SFFAS 54 in order to align it more with the revised paragraph 42 (edits are denoted in <a href="#">blue</a>): “If that interest rate cannot be readily determined, the <a href="#">interest rate should be based on</a> marketable Treasury securities <del>rate</del> with similar maturity to the end of the lease term at the time the discount rate is updated <del>should be used</del> (see par. 42-42C above).”</p>	<p>Staff agrees with the respondent's comments on par. 42 and 48, but found that the proposed revisions suggested by respondent <b>11</b> clarify the same aspects of the proposal that were noted by the respondent. Staff recommends the revisions provided by respondents <b>11</b> and <b>15</b>.</p>
14	Agree	<p>We do not agree with the revisions made to paragraph 4 related to the discretionary use of round up, round down, or interpolation as well as the discount rate.</p> <p>The discretionary use of round up, round down, or interpolation can lead to inconsistencies in values between DoD Components, commands, or directorates. Additionally the interpolation method will create variability, because it does not specify which of the two published rates should be chosen. Therefore, we recommend the Federal Accounting Standards Advisory Board (FASAB) revise the guidance and choose the specific method in order to create consistency.</p> <p>Regarding the discount rate, this paragraph mentions that it "should be consistent from period to period." It is unclear if there is leeway for variability of method application from lease to lease or if the entity should consistently apply a chosen method to all their leases. We recommend revising this paragraph to include the intent of method application across leases.</p>	<p>Lease liabilities are estimates that inherently involve professional judgment. Staff believes that the proposals provide some degree of flexibility to accommodate estimation methodologies, while also building guardrails for ensuring that methodologies yield rates that are reasonably consistent with published rates on a consistent basis. It should be noted that the lack of specificity in par. 42 and 59 absent these proposals would also introduce inconsistencies. The additional criteria should provide for comparative reductions in inconsistencies to an acceptable level without eliminating them.</p> <p>Staff partially agrees with the position of the respondent regarding the importance of providing criteria for applying methodologies consistently across the lease portfolio; however, the proposal provides criteria for the <i>methodology</i> for selecting rates. As such, the proposal implies consistent application of methodology, which would apply to the lease portfolio. No action recommended, but staff will confirm Board concurrence on this matter.</p>



QFR 1: Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
15	Agree	<p>We support the proposed amendments to address discounting lease liabilities and receivables (amending paragraphs 42, 47-48, and 59 of SFFAS 54 Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, as amended) and the Board's basis for such proposals.</p> <p>However, we believe the clarity of the standard would be improved through the use of the same terminology as that in SFFAS 54. Below are examples of such conforming revisions.</p> <p>Paragraph 42A</p> <p>Replace “the date of the initial lease liability recognition” with “the commencement of the lease term”. This terminology is used in SFFAS 54 paragraph 39, which states that the lease liability should be recognized at the commencement of the lease term.</p> <p>Replace “the date that the discount rate is updated” with “the subsequent financial reporting date(s)”. This terminology is used in SFFAS 54 paragraph 44, which states that if certain changes have occurred, the lessee should remeasure the lease liability at subsequent financial reporting dates.</p> <p>Paragraph 59A</p> <p>Replace “the date of the initial lease receivable recognition” with “the commencement of the lease term”. This terminology is used in SFFAS 54 paragraph 55, which states that a lease receivable should be recognized at the commencement of the lease term.</p> <p>Replace “the date that the discount rate is updated” with “the subsequent financial reporting date(s)”. This terminology is used in SFFAS 54 paragraph 61, which states that if certain changes have occurred, the lessor should remeasure the lease receivable at subsequent financial reporting dates.</p>	<p><b>Par 42A and 59A:</b> Staff agrees with the proposed edits to improve consistency in terminology and clarity.</p>
16	Agree	<p>The Department of State (State) has reviewed and generally agrees with the approach on the Omnibus Amendments: Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-leasebacks. Based on our preliminary review, we see no issues complying with these clarifications at this time.</p>	<p>N/A</p>

QFR 2: Do you agree or disagree with the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraphs 8-9, and the Board's basis for such proposals? Please provide the rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
1	Agree	Initially, SFFAS 54 was silent regarding sale-leaseback transactions intragovernmental in nature. Visual Lease, LLC. agrees with the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraphs 8-9, and the Board's basis for such proposals as it clarifies the requirements apply both to public sale-leasebacks and intragovernmental sale-leasebacks for disclosure purpose. Visual Lease, LLC supports this provision because, while not prescribing accounting treatment, it does add clarity and transparency to the amount of intragovernmental sale-leaseback for each reporting entity through disclosure.	N/A
2	Agree	Agree. Clarity of intent when making decisions on leases is so important. Supportable conclusions that can consistently be applied in the future are also necessary. These edits provide more definition of the scope for Agencies to make decisions on leases/sale-lease backs and consistently apply them.	N/A
3	Agree	The Department of Housing and Urban Development officially reviewed the FASAB ED Technical Release on Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-leasebacks for comment and we agree with the board's recommendations for implementation.	N/A
4	Agree	We concur that the proposed amendment to footnote 11 of paragraph 89 of SFFAS 54 clarifies (as the Board intended) that sale-leasebacks are applicable to intragovernmental leases. We also concur that the proposed amendments provide that disclosures on the terms and conditions of the sale-leaseback transactions are required.	N/A
5	Agree	Yes. Amendments appropriately clarify application of the standard.	N/A
6	Agree	VA concurs with the proposed amendments.	N/A
7	Agree	Agree: Additional clarification by referencing specific citations and guidance regarding disclosure of terms and conditions leads to more consistent reporting and comparability for the public.	N/A
8	Agree	Agree. The amendment to Footnote 11 clarifies the difference between sale-leaseback transactions for intragovernmental vs. those with the public and references the appropriate paragraphs of SFFAS 7. Also, the amendment to paragraph 92 is required to properly apply the relevant paragraphs of SFFAS 54 for the intragovernmental disclosure requirements.	N/A

QFR 2: Do you agree or disagree with the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraphs 8-9, and the Board's basis for such proposals? Please provide the rationale for your answer.			
Ref. No.	Agreement type	Response	Staff Notes
9	Partially agree	<p>The Department partially disagrees with the proposed amendment to footnote 11 to paragraph 89 of SFFAS 54 as reflected in paragraph 8 because we believe that the guidance in paragraphs 314 (Intragovernmental sales of goods and services by a revolving fund) and 315 (Intragovernmental sales of goods and services by a fund other than a revolving fund) do not appear to reasonably relate to the sale of an underlying asset by the owner.</p> <p>The Department agrees with the proposed amendments to clarify the applicability of paragraph 92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraph 9, and the Board's basis for such proposals as it adds clarification to disclosure requirements for sale-leasebacks.</p>	<p>The purpose of the footnote is to cite analogous examples of intragovernmental sales provided under SFFAS 7. Unlike the exchange transactions with the public guidance (par. 293-304)--which cite sales of PP&amp;E as an analogous example of a sale--the intragovernmental transactions guidance does not include sales of PP&amp;E as an analogous example available for citation. The most analogous example in SFFAS 7 par. 314-330 is par. 314-315. Staff finds the example to be sufficiently analogous.</p> <p>Alternatively, the Board may wish to add an additional example to SFFAS 7 par. 314-330. Staff does not recommend doing so at this time, however; as it may be more appropriate to reexamine SFFAS 7 more holistically at a later time so that any revisions are more thoroughly vetted, analyzed, and exposed for public comment.</p>
10	Agree	DOT agrees with proposed guidance. No further comment on the matter.	N/A
11	Agree	We agree with the proposed amendments related to SFFAS 54 paragraphs 89 and 92, as these changes will provide greater clarity as discussed in the Board's Basis for Conclusions.	N/A
12	Agree	We agree with the proposed amendments for the reasons stated by the Board.	N/A
13	Agree	DoD agrees with the proposed amendments in paragraphs 8-9 to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the applicable disclosure requirements. The amendment to footnote 11 in paragraph 89 of SFFAS 54 will now clearly cite guidance that qualify as sales for both intragovernmental and with-the-public exchange transactions, while paragraph 92 will reference disclosure requirements for intragovernmental leases and lease assets.	N/A
14	Agree	We agree with the proposed amendments to paragraphs 8 – 9 to reflect the applicability of paragraphs 89 – 92 of SFFAS 54. The guidance clearly illustrates intragovernmental sale-leasebacks and the disclosure requirements applicable to them.	N/A
15	Agree	We support the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in proposed paragraphs 8-9, and the Board's basis for such proposals.	N/A
16	Agree	The Department of State (State) has reviewed and generally agrees with the approach on the Omnibus Amendments: Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-leasebacks. Based on our preliminary review, we see no issues complying with these clarifications at this time.	N/A

Ref. No.	Additional Comments, if any	Staff Notes
1	As a result of our analysis, Visual Lease, LLC. is supportive of both clarifications provided in this exposure draft.	N/A
2	N/A	N/A
3	N/A	N/A
4	N/A	N/A
5	N/A	N/A
6	<p>VA performed an analysis of its lease population and has identified well over 1,000 contracts that would qualify as leases under SFFAS 54 and related guidance. To identify review, track, account for, and report all of these leases, VA will have to stand up a new centralized team to ensure compliance with these reporting standards. This would be a significant increase in resources dedicated to leases over what VA has currently allocated to lease transactions.</p> <p>VA's current financial accounting system does not have the capability to account for lease transaction in compliance with SFFAS 54. It appears there will be system updates rolling out in the future to bring the system in compliance with SFFAS 54, but it does not appear they will be ready for the implementation date. VA has also been pursuing external and internal interim and permanent system solutions to track and account for leases. Most solutions we have identified are not currently compliant with SFFAS 54 and would require system changes.</p> <p>While looking at developing an internal system solution to track leases VA noted this would take a significant amount of time and effort and would likely lack the controls necessary to pass muster of a financial audit. VA also identified a significant need for employees to create and maintain this system.</p> <p>Based on our discussions with other agencies it does not appear VA is alone in experiencing these challenges. We request FASAB to take these challenges into consideration as we continue down the road to implementation on October 1, 2023.</p>	<p>Staff appreciates these implementation updates for the Board. While helpful to the Board's monitoring of implementation, the updates do not affect this particular proposal. Staff does not recommend Board action in response to these implementation updates at this time.</p>
7	N/A	N/A
8	N/A	N/A
9	N/A	N/A
10	N/A	N/A
11	N/A	N/A
12	N/A	N/A
13	N/A	N/A

Ref. No.	Additional Comments, if any	Staff Notes
14	N/A	N/A
15	N/A	N/A
16	<p>State has the following additional concerns and comments on the SFFAS 54 Leases, SFFAS 58 Deferral of the Effective Date of SFFAS 54, Leases, and the Implementation Guidance outlined in Technical Release 20, specifically question 91 as it relates to the treatment of overseas residential leases.</p> <p>The overseas residential leases administered by State but occupied by other Federal agency employees are unique in their business process and do not align with traditional and expected lease scenarios as outlined in SFFAS 54 in the following manner:</p> <ul style="list-style-type: none"><li>• State does not execute subleases or occupancy agreements to Federal agencies.</li><li>• State does not establish reimbursable agreements, bill or collect reimbursement (i.e., cash consideration) from agencies operating overseas.</li><li>• State operates with disbursing authority to make payments for Federal agencies to include payments in foreign currencies, such as for lease payments to landlords.</li><li>• State does not pay landlords on behalf of agencies who do not provide their appropriate funds cite timely. Instead, they work with the agency to obtain the fund cite. State funds do not back overseas residential leases.</li></ul> <p>We appreciate FASAB's initial consideration of these scenarios and the guidance provided under TR 20, question 91 as well as the continued support we receive though the Lease Task Force. However, State identified remaining gaps in our ability to effectively implement the guidance as promulgated by FASAB when State has assisted other agencies with obtaining leases with services provided through the Interagency Cooperative Administrative Support Services (ICASS), the shared administrative services platform at overseas posts. As a result of these outstanding unique accounting challenges, State cannot finalize the accounting entries, processes and system requirements and execute the associated financial reporting preparation and system implementations without further guidance. Therefore, State is requesting 1) that SFFAS 58 Deferral of the Effective Date of SFFAS 54, Leases, be modified to allow State and other agencies two additional years (FY2026) to continue to address these challenges, and 2) that TR20, question 91, be removed or modified.</p> <p>Justification for extending the implementation date as outlined in SFFAS 58:</p> <p>Abridged by staff for Attachment 4 (due to length). See comment letter at: <a href="https://files.fasab.gov/pdffiles/LeasesOmnibusED_16_State.pdf">https://files.fasab.gov/pdffiles/LeasesOmnibusED_16_State.pdf</a></p> <p>Justification for the removal or modification of TR 20, question 91</p> <p>Abridged by staff for Attachment 4 (due to length). See comment letter at: <a href="https://files.fasab.gov/pdffiles/LeasesOmnibusED_16_State.pdf">https://files.fasab.gov/pdffiles/LeasesOmnibusED_16_State.pdf</a></p>	<p>Staff appreciates these implementation updates for the Board. While helpful to the Board's monitoring of implementation, staff does not recommend Board action.</p>