

Memorandum

Leases

February 8, 2023

To: Members of the Board
From: Ricky A. Perry, Jr., Senior Analyst
Thru: Monica R. Valentine, Executive Director
Subject: **Leases post-issuance activities project** (Topic E)

INTRODUCTION

In response to member requests, this briefing material includes a report on leases implementation. This report is only for informational purposes to assist the Board with monitoring the effectiveness of its leases post-issuance technical activities. Staff did not identify any proposed agenda decisions or recommendations in this report.

REQUEST FOR FEEDBACK

This topic does not include requests for member feedback. However, if members have follow-up questions on this material, please contact staff by February 17, 2023, at perryra@fasab.gov with a cc to Monica Valentine at valentinem@fasab.gov.

NEXT STEPS

N/A.

ATTACHMENTS

1. Implementation updates
2. GSA-provided implementation update
3. Project plan

REFERENCE MATERIAL

1. GAO, *Schedule Assessment Guide: Best Practices for Project Schedules*, [GAO-16-89G](#) (Washington, D.C.: December 2015).

2. OMB, *Appendix D, Management of Financial Management Systems – Risk and Compliance*, [M-23-06](#) (Washington, D.C. Dec. 22, 2022).
3. [AAPC February 2023 meeting materials](#)

Staff Analysis

Leases

February 9, 2023

CONTEXT

Leases project history

August 2011: The Board approved a plan to review existing leases accounting standards and consider changes to address the needs of the federal community.

2014 and 2015: The Board agreed to align with Governmental Accounting Standards Board (GASB) as a foundation for the development of lease accounting standards based on extensive, iterative research and deliberations confirming this approach.

September 2016: The Board issued an exposure draft on leases.

April 2018: The Board issued SFFAS 54, *Leases*, with unanimous approval. Under the original pronouncement, the effective date was for reporting periods beginning after September 30, 2020, with early adoption prohibited.

August 2019: The Board initiated a leases post-issuance project to systematically and responsively identify and address implementation issues.

June 2020: The Board issued SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, with unanimous approval, which deferred the effective date by three years.

November 2021: The Board issued SFFAS 60, *Omnibus Amendments 2021*, to clarify and amend certain technical aspects of SFFAS 54. The amendments did not alter the overall accounting model of SFFAS 54. The Board also issued Technical Release (TR) 20, *Implementation Guidance for Leases*.

April 2023 (projected): The Board will issue SFFAS 61, *Omnibus Amendments 2023* and clarify a few additional technical aspects of SFFAS 54. These amendments do not alter the overall accounting model of SFFAS 54. The forthcoming pronouncement is undergoing sponsor and congressional review.

August 2023 (projected): The Board and the AAPC will issue updates to TR 20 to conform the implementation guidance to the amendments issued under SFFAS 61.

Fiscal year 2024: Effective reporting period for implementation of SFFAS 54.

SUMMARY OF ANALYSIS

This report on staff implementation monitoring and observations includes **three parts**:

1. Staff observations on the leases implementation experience, including:
 - ongoing implementation activities and themes observed, and staff observations based on these activities and themes;
 - implementation experiences of companies, not-for-profits, state and local governments, and other organizations subject to Financial Accounting Standards Board (FASB) ASC 842, *Leases*, and GASB Statement No. 87, *Leases*; and
 - a comparative timeline of the Board's post-issuance activities to those of the FASB and the GASB.
2. Staff observations on the effectiveness of the Board's post-issuance activities.
3. Summary of implementation activities at the Office of Management and Budget (OMB) and Treasury's Bureau of the Fiscal Service (Fiscal Service).

Overall, staff found that the Board's post-issuance activities have been helpful to practitioners. Staff also found that the implementation process is already significantly contributing to the federal financial reporting objectives—even prior to the effective date.

METHODOLOGY

To understand implementation activities and identify themes, staff:

- Interviewed a non-generalizable selection of eight CFO Act agency staff members in January-February 2023. Staff conducted these interviews in a semi-structured format to facilitate the identification of themes, while also allowing interviewees to share additional information.
- Interviewed senior technical staff members from FASB and GASB in January 2023 on their implementation observations in the year leading up to the effective reporting periods of FASB ASC 842 and GASB Statement No. 87.¹
- Obtained information from the Fiscal Service on auditor reporting of significant consolidation entities subject to FASB's ASC 842, *Leases*.

¹ FASAB staff summarized the information and observations provided by FASB and GASB staff in this briefing material. The information provided and summarized herein should not be interpreted as representing the authoritative views of the FASB, the GASB, or the FASAB. The authoritative views of these Boards are reflected in their respective final pronouncements after extensive due processes and deliberations.

- Analyzed fiscal year 2022 technical inquiry records submitted to the FASAB technical staff.

To analyze the implementation activities and themes and formulate observations, staff reviewed and considered scheduling concepts described under GAO's *Schedule Assessment Guide*.²

To compare post-issuance activities across standards setters, staff analyzed FASB and GASB project histories and historical pronouncement information. Staff also discussed implementation experiences and project histories with senior technical staff members from FASB and GASB during the aforementioned January interview.

To summarize GSA, OMB, and Fiscal Service implementation activities, staff submitted information requests to them.

ANALYSIS

Implementation activities and themes, and staff observations

Some practitioners with whom staff has spoken continue to make significant progress with implementation activities. For example, many reporting entities have made considerable strides in developing accounting policies and procedures, designing internal controls, identifying leases and abstracting data, and developing interim implementation processes.

Some practitioners are experiencing challenges as well. Practitioners commonly cited:

- under-resourced and under-staffed implementation project teams;
- competing priorities (such as other ongoing financial systems modernization efforts);
- decentralized organizational structures and systems of accounting control;
- poor preparation and responsiveness among some software vendors;
- delayed receipt of final general ledger guidance;
- lack of government-wide coordination with and instruction to software vendors; and
- mobilization and alignment of stakeholders across the organization.

The General Services Administration (GSA) provided implementation updates for staff to include in this implementation update (see Attachment 2). GSA is on track for timely

² GAO, *Schedule Assessment Guide: Best Practices for Project Schedules*, [GAO-16-89G](#) (Washington, D.C.: December 2015).

implementation. Some CFO Act agencies also reported being on track for implementation and a general expectation to overcome the challenges that they cited. Others reported use of manual approaches to implementation on an interim basis until the standard and its requirements are integrated into their financial systems.

Staff observations

- Organizational change management, project management, and systems are top management challenges affecting leases implementation among several reporting entities. Because of these management challenges, numerous practice and operational challenges have persisted (and may continue to persist) for some reporting entities. These challenges are generally consistent with many of the challenges encountered by many FASB and GASB reporters (see section below).
- Many reporting entities never developed or planned implementation project schedules and requirements or engage in standard practice for managing complex projects. As a result, these reporting entities' implementation projects have not appropriately reflected the resources needed to complete critical activities in the process in a timely manner. When implementing significant changes in accounting principles, staff believes that proactive planning, management of critical path implementation activities, and managing implementation project float is vital.³ With leases implementation, the selection and implementation of the system or data repository tool is a critical activity.⁴
- System/tool selection has downstream effects on implementation critical paths. Once a system/tool has been selected it needs to be configured and tested. Farther downstream, end users of the system or tool must be trained, internal control activities to ensure data reliability and completeness of data must be designed and placed into operation, and data from lease contracts must be entered into and maintained within the system or tool.
- Improved coordination and collaboration with financial management service providers to incorporate SFFAS 54 standards into solutions and services earlier in the process may have helped mitigate systems-related challenges.⁵
- Decentralized systems of accounting control and management of lease contracts among some reporting entities can exacerbate challenges associated with

³ A "critical path" is the longest continuous sequence of activities in a schedule. The critical path defines a project's earliest completion date or minimum duration. "Total project float" is the amount of time an activity can be delayed or extended before delay affects the project finish date. If positive, it indicates the amount of time that an activity can be delayed without delaying the project finish date. If negative, it indicates the amount of time that must be recovered so as not to delay the project finish date. Source: [GAO-16-89G](#), p. 217-219.

⁴ A "critical activity" is an activity on the critical path of a project timeline. Source: [GAO-16-89G](#), p. 216.

⁵ OMB Circular A-123, *Appendix D, Management of Financial Management Systems – Risk and Compliance*, discusses responsibilities for implementing and maintaining financial management systems that comply substantially with federal accounting standards.

mobilizing and aligning resources and managing critical dependences between CFO offices and other offices with implementation roles, such as acquisition, real estate, and legal.

- As implementation has continued, staff has observed numerous examples of reporting entities identifying opportunities to improve upon existing elements of their systems and controls. Staff believes that the forthcoming changes in accounting principles are triggering renewed attention on agencies' systems of accounting control and driving improvements. They are also triggering secondary improvements to operating performance, budgetary integrity, contract management, payment integrity, and other business processes. In other words, staff is observing early indicators of the anticipated benefits of SFFAS 54 and contributions to the federal financial reporting objectives—even prior to the effective date.

Implementation experiences of companies, not-for-profits, state and local governments, and other organizations implementing FASB and GASB GAAP

Organizational change management, project management, and systems were also challenges for companies, not-for-profits, state and local governments, and other organizations implementing FASB and GASB GAAP. The extent to which these organizations would ultimately rely on systems providers for leases implementation may not have been fully understood and appreciated by the profession prior to the implementation process. Software providers for GASB reporting entities also experienced challenges associated with accommodating differences between the GASB Statement No. 87 and FASB ASC 842.

Other challenges faced by these organizations are similar to those experienced by federal reporting entities, including challenges with reviewing contracts and implementing scope and definitional criteria, COVID-19 and competing operational priorities associated with stimulus funding, and behavioral issues among reporting entities responsible for timely implementation.

Nevertheless, staff is not aware of pervasive adverse audit reporting implications. Organizations generally overcame and addressed control weaknesses that were associated with these changes in accounting principles. In fiscal year 2022, there were no modified audit opinions, material weaknesses, or significant deficiencies reported by independent auditors of federal reporting entities applying the accounting and reporting standards of the FASB resulting from ASC 842.

Comparative Timeline of Post-issuance Activities to Those of the FASB and the GASB

See next page for the timeline table.

	FASB	GASB	FASAB
2016	Topic 842 issued on 2/25		
2017		Statement 87 issued on 6/28	
2018	ASU 2018-01 issued on 1/25 (easement practical exp.) ASU 2018-10 issued 7/18 (codification impr.) ASU 2018-11 issued 7/30 (targeted impr.) ASU 2018-20 issued 12/10 (targeted lessor scope impr.)		Issued SFFAS 54 on 4/17
2019	Effective for filers (12/31 y-e & interim) ASU 2019-01 issued 3/5 (codification impr.)	Implementation Guide 2019-3 issued 8/15	
2020	ASC 2019-10 issued 11/15 (deferral for pvt. / all others) Some not-for-profits (12/31 y-e and interim) ASC 2020-05 issued 6/3 (deferral for pvt. / all others)	GASB 92 issued 2/5 (deferral for interim reporting) Implementation Guide 2020-1 issued 4/23 GASB 95 issued 5/8 (18-month deferral)	SFFAS 58 issued 6/19 (deferral)
2021		Implementation Guide 2021-1 issued 6/2	
2022	ASU 2021-05 issued 7/19 (targeted lessor amendments) ASU 2021-09 issued 11/11 (risk-free rate practical exp.) Private companies / all other entities (12/31 y-e)	Effective (6/30 and 12/31 y-e's) Statement 99 issued 5/9 (omnibus)	SFFAS 60 issued 11/4 (omnibus / targeted clarifications) TR 20 issued 11/4 (implementation guidance)
2023	Private companies / all other entities (interim)	Implementation Guide 2023-1 expected in June	SFFAS 61 issuance expected in April Targeted TR 20 updates expected in August
2024			Effective (9/30 y-e)

The above table summarizes authoritative transition requirements. Transition requirements are complex and not fully illustrated. For example, FASB transition requirements for year-ends other than 12/31 are not reflected. See ASC 842-10-65 for more information.

Staff Observations on the Effectiveness of the Board's Post-issuance Activities

One objective of the leases post-implementation activities project is to facilitate implementation of SFFAS 54. The Board's post-issuance activities have been effective and helpful to the community according to practitioners interviewed by staff.

Staff believes that the following metrics serve as performance indicators for the Board's project:

1. Volume of technical inquiries submitted to the FASAB staff.

Since the beginning of fiscal year 2022, staff has received only six formal technical inquiries pertaining to leases through FASAB.gov. The feedback value of this indicator is limited, however. The metric might also indicate delayed implementation activities. Perhaps the volume of technical inquiries will increase significantly as the effective date approaches. Time will tell.

2. Percentage of technical inquiries resolved through direct citation of pronouncements.

Staff has resolved almost every technical inquiry through direct citations of SFFAS 54, as amended, and TR 20.

In general, staff believes that the Board's post-issuance activities are facilitating implementation and will play an important role in helping practitioners achieve the desired implementation outcomes.

Status of Implementation Activities at Fiscal Service

Update provided to FASAB staff on January 20 (with minor updates provided on February 2):

"Fiscal Service received affirmative votes from the USSGL Board and IRC on FY24 USSGL changes relating to SFFAS 54 in December 2022. The USSGL account changes were published in TFM Bulletin 2023-02 in December 2022. In addition, FS staff have completed five separate non-authoritative posting logic illustrations of SFFAS 54 to facilitate agency accounting, reporting, and systems development for multiple lease activities. The publish date of these illustrations is pending further review from OMB's Budget Review Division on budgetary accounting entries, which is standard procedure before posting logic is published. Target completion is February 2023, but subject to change.

Separately, FS is reviewing USSGL changes (if any) to bring before the USSGL Board and IRC resulting from the RWA Technical Bulletin. FS hopes to approve any RWA-related changes by July 2023."

Status of Implementation Activities at OMB

Update provided to FASAB staff on February 7

"OMB reviews each new FASAB accounting standard that is issued to determine what, if any, changes to OMB Circular A-136, Financial Reporting Requirements, are necessary to implement the standard. OMB will follow a similar procedure for SFFAS 54, as amended.

Several years ago, OMB streamlined A-136 quite significantly and continues to believe that more streamlining is necessary. Therefore, whenever new content is added to A-136, OMB likes to identify other A-136 sections that can be streamlined to keep the length of the document from increasing. OMB hopes that any new A-136 content that is necessary for SFFAS 54 can be offset by streamlining elsewhere in the document.”

GSA SFFAS 54 Implementation Update

Prepared for FASAB Feb 2023

GSA is on track to implement SFFAS 54 in FY24. We began requirements development in 2018 and have worked for the last several years to modify our financial system to automate the implementation of SFFAS 54 for our real property leases. We completed the first dry run conversion testing in December 2022 with positive results and will begin our next dry run testing in March 2023 with a third dry run test in July 2023. Our second dry run testing in March will include all of the new Standard General Ledgers (SGLs) provided by Treasury. The remaining dry runs could further identify additional systems implementation issues that may need to be addressed.

There may be additional changes needed as the Treasury SGL Scenarios are finalized. We're still anticipating an October 2023 implementation; however, further changes to Treasury SGL Scenarios or changes to FASAB guidance (i.e. TB on Intragovernmental Leasehold Reimbursable Work Agreements) could create delays in our implementation timeline.

We have reviewed our personal property leases and determined them to be immaterial at this time and expect them to fall below the capitalization threshold set for RTU accounting treatment. We are conducting a review for potential embedded leases in other contracts/agreements. We believe additional guidance (i.e. amendments to TR 20) will be needed to address issues such as asset control that will impact decisions regarding if a contract/agreement (or portion thereof) meets the definition of a lease.

We drafted a methodology document that explains our processes and procedures and includes new internal controls to be developed. These internal controls will be established in the coming months and are expected to be in place for FY24. These controls are designed to mitigate the most material and substantial risks with lease accounting.

While there are still multiple risks as detailed above, GSA is not aware of anything not addressed by our implementation planning that we consider high risk of leading to a material misstatement of our financial statements upon implementation of SFFAS 54 in FY24.

Leases Project Plan

	Deferral SFFAS 58 ✓	Implementation Guidance TR 20 ✓ Updates To TR 20	Omnibus SFFAS 60 ✓ SFFAS 61 ✓	Leases-Related Intragovernmental RWAs Technical Bulletin 2023-1 ✓	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		Issuance TR 20 ISSUED Research	Issuance SFFAS 60 ISSUED Research Draft Exposure Period Finalize	Research Draft Exposure Period Finalize	Provide
FY 2023 Q1		Research	Finalize	Finalize	Draft FY 23 content
FY 2023 Q2		Research Draft	Finalize / Approve Issuance pending Proj. Issuance: 4/7/23	Finalize / Approve Issuance pending Proj. Issuance: 3/17/23	Provide
FY 2023 Q3		Draft Exposure Period			Provide
FY 2023 Q4		Finalize / Approve Target Issuance			Provide
FY 2024 Q1	SFFAS 54 effective				

Last updated: February 2023.