

## Memorandum

### Leases

May 18, 2023

To: Members of the Board  
From: Ricky A. Perry, Jr., Assistant Director  
Thru: Monica R. Valentine, Executive Director  
Subject: **Leases – transitional accommodation proposal** (Topic A)

### INTRODUCTION

The briefing material includes a staff analysis and proposed transitional accommodation for practitioners implementing provisions of Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, paragraphs 72-77 (*Contracts or Agreements with Multiple Components*), as they relate to “embedded leases” (a common industry term which generally describes contracts or agreements that contain lease and non-lease components).

### REQUEST FOR FEEDBACK BY MAY 26

**Prior to the Board’s May meeting**, please review the attached staff analysis (attachment 1), draft proposal (attachment 2), and project plan (attachment 3). Please respond to the ensuing questions by May 26.

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 further revise the attached draft proposal and move provide members with a pre-ballot draft in advance of the June meeting.

### ATTACHMENTS

1. Staff analysis
2. Working draft exposure document: *Transitional Amendment to SFFAS 54*
3. Project plan

## REFERENCE MATERIAL

1. [April 2023 Board meeting minutes](#) *(as of the date of this memorandum, the minutes are not final)*
2. [SFFAS 54, Leases](#) (par. 37-38, 72-77, 96-97)
3. [SFFAC 1, Objectives of Federal Financial Reporting](#) (par. 160, 164a-g)
4. [SFFAC 2, Entity and Display](#) (par. 68)
5. [SFFAS 21, Reporting Corrections of Errors and Chagnes in Accounting Principles](#) (par. 13)

*Note: Staff references the parenthetically noted paragraphs above in attachment 1.*

## Staff Analysis

### Transitional accommodation proposal (Attachment 1)

May 18, 2023

#### CONTEXT

At the April 2023 Board meeting, the Board asked staff to draft an issue paper and proposed transitional accommodations for practitioners in the area of “embedded leases.” Embedded leases, although not defined under SFFAS 54, generally refer to contracts and agreements with multiple components that contain both lease and non-lease components, such as services.

The Board’s request was based on extensive staff research and implementation monitoring, as discussed at the February 2023 meeting, and the Board’s consultations with practitioners during the April 2023 clarification discussion.

#### SUMMARY OF RECOMMENDATIONS AND ANALYSES

Staff developed and recommends the following transitional accommodation proposals in the analysis below:

- A. Reporting entities would not need to assess whether any existing contracts or agreements meeting certain “embedded leases” criteria are or contain leases (a) as of October 1, 2023, and (b) subsequently entered into or modified prior to the beginning of the reporting period of transition.
- B. Reporting entities would prospectively apply the provisions of paragraph 73 of SFFAS 54 to new or modified contracts or agreements meeting certain embedded leases criteria for reporting periods beginning after September 30, 2025, or earlier.
- C. Reporting entities would have flexibility and options with respect to (a) electing the transitional accommodation or not; (b) prospectively recognizing “embedded leases” beginning in fiscal year 2026, or earlier; and (c) organizing and applying the accommodation to groups of contracts or agreements (portfolios).

## ANALYSIS

Paragraphs 3-4 of the draft proposal (attachment 2) provides helpful context to respondents evaluating the proposed transitional amendment under paragraph 5.

### PROPOSED TRANSITIONAL AMENDMENT TO SFFAS 54

3. Paragraph 72 of SFFAS 54, *Leases*, acknowledges that lessees and lessors may enter into contracts or agreements that contain both a lease component and a nonlease component. Paragraph 73 provides that the federal entity should account for lease and nonlease components as separate contracts or agreements.
4. Contracts and agreements that contain both lease component(s) and nonlease component(s), such as service components, are often referred to in practice as “embedded leases.”

### Contracts or Agreements with Multiple Components

72. Lessors and lessees may enter into contracts or agreements that contain multiple components, such as a contract or agreement that contains both a lease component and a nonlease component, or a lease that contains multiple underlying assets.
73. If a lessor or lessee enters into a contract or agreement that contains both a lease (such as the right to use a building) and a nonlease component (such as a maintenance services for the building), the federal entity should account for the lease and nonlease components as separate contracts or agreements, unless the contract or agreement meets the exception in paragraph 76.

Following paragraphs 3-4, paragraph 5 of the proposal inserts paragraphs 96A-96D in between paragraphs 96 and 97 of SFFAS 54’s “implementation” section (or topic area).

5. Paragraphs 96A-96D are added to SFFAS 54 as follows:

**96A.** The below transitional accommodation applies only to contracts or agreements (or portfolios thereof) that meet both of the following criteria:

- a. The contracts or agreements contain nonlease component(s) and may contain lease component(s), and
- b. The purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components. See paragraph 96B criteria for assessing the primary purpose.

**Paragraph 96A** explains the scope and applicability criterion for the transitional accommodation that follows under **paragraph 96C**. Based on the Board’s April discussions, staff believes that the Board wants to provide transitional relief for contracts or agreements that (a) contain

nonlease component(s) and may contain lease component(s), and (b) have a primary purpose attributable to nonlease component(s), such as services.

Staff believes that this paragraph would also prevent broad application of the transitional accommodation to “non-embedded leases” or to contracts or agreements that have a primary purpose attributable to lease component(s). The implementation provisions of paragraph 96 of SFFAS 54 (unamended) would continue to apply for such leases.

Further guidance is needed to help ensure that practitioners reasonably assess the primary purpose of contracts or agreements (or portfolios thereof) in a manner that is consistent with the Board’s intent, but without requiring unduly extensive reviews, analyses, data abstractions, or other procedures for which the transitional accommodation is intended to provide additional time. Accordingly, **paragraph 96A.b** refers practitioners to **paragraph 96B** criteria for assessing the primary purpose.

**96B.** To assess whether the primary purpose of contracts or agreements (or portfolios thereof) is attributable to the nonlease component(s), lessees and lessors should understand the nature of the contracts or agreements. The primary purpose may only be attributed to the nonlease component(s) provided that both of the following criteria are met:

- a. the attribution does not appear to be unreasonable based on the terms of the contracts or agreements and professional judgment, and
- b. the nature of the contracts or agreements within the portfolio assessed is reasonably consistent based on the terms of the contracts or agreements and professional judgment.

Staff’s rationale for the language included in **paragraph 96B**:

- Limiting the criteria for attributing the primary purpose to (a) understanding the nature and terms of the contracts or agreements within the portfolio and allowing practitioners to apply professional judgment, and (b) grouping contracts and agreements within portfolios of a nature that is reasonably consistent.
- The ability to assess the primary purpose of contracts or agreements at an individual or group (portfolio level), provided that the nature of the contracts or agreements within the portfolio is reasonably consistent. Staff believes that allowing practitioners to organize their contract or agreement based on the nature of such contracts would facilitate efficient more application of the transitional accommodation.
- The transitional accommodation can be applied by both lessees and lessors.

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

1. Do members have feedback on the proposed paragraphs 3-4, which establish the relationship of the proposed transitional accommodation under paragraph 5, to SFFAS 54?
2. Do members have feedback on the proposed additions of paragraphs 96A-B under paragraph 5?

**96C.** A reporting entity may elect not to assess whether contracts or agreements (or portfolios thereof) meeting all of the paragraph 96A criteria above are or contain leases (a) existing as of October 1, 2023, and (b) subsequently entered into or modified prior to the beginning of the reporting period of transition. The entity making such an election should prospectively apply the provisions of SFFAS 54, paragraph 73, to new or modified contracts or agreements meeting all of the paragraph 96A criteria above for reporting periods beginning after September 30, 2025, or earlier (the reporting period of transition).<sup>12</sup> In the reporting period of transition, the lease terms for such leases would assume that the lease term began as of the beginning of the reporting period of transition (October 1, 2025, or earlier). The lease liability and lease asset (for lessees) or lease receivable and unearned revenue (for lessors) should initially be measured based on the remaining lease term and associated lease payments as of the beginning of the period of transition (October 1, 2025, or earlier).

FN 12 – Contracts or agreements with lease terms commencing or lease modifications effective as of October 1, 2025, and beyond (or earlier, if the reporting entity elects to transition in the reporting period beginning October 1, 2023, or October 1, 2024).

**Paragraph 96C** is the transitional accommodation for contracts or agreements meeting all of the **paragraph 96A** criteria above as well as the conditions outlined in **paragraph 96B**.

At the April 2023 meeting, several members agreed that providing additional time for “embedded leases” would be helpful, especially given the amount of time that may be necessary for identifying, analyzing, and applying SFFAS 54 requirements to such contacts or agreements.

The above draft proposal would provide up to two additional years for reporting entities to identify, analyze, and prospectively apply SFFAS 54 requirements to contracts or agreements with multiple components meeting the **paragraph 96A** criteria. Following the receipt of public comments, the Board could further evaluate the transitional accommodation timeline. Reporting entities may also forgo the transitional accommodation entirely, or elect the transitional accommodation but begin prospective application of SFFAS 54 to contracts or agreements meeting all of the **paragraph 96A** criteria in fiscal year 2024 or fiscal year 2025 (but no later than fiscal year 2026).

As mentioned in the analysis of paragraphs 3-4 above, the transitional accommodation's link to SFFAS 54 is established within the amendment under **paragraph 96C** with reference to paragraph 73 of SFFAS 54 (see above).

As mentioned in the analysis of **paragraph 96B** above, the transitional accommodation can be applied by both lessees and lessors. This is reflected in the proposed **paragraph 96C** as well.

### Question for the Board #3:

3. Do members have feedback on the proposed addition of paragraph 96C under paragraph 5 and related transitional accommodation?

**96D.** A reporting entity electing the above transitional accommodation should disclose the following:

- a. The election of the transitional accommodation during the reporting period(s) presented.
- b. The nature of any significant contracts and agreements (or portfolios thereof) for which the transitional accommodation was elected.

**Paragraph 96D** would provide disclosure requirements for reporting entities electing the transitional accommodation.

- **Paragraph 96D.a** would require reporting entities to disclose the election of the transitional accommodation during the reporting period(s) presented. Staff views this proposal as common practice in the profession and consistent with Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, paragraph 68, which provides that accompanying footnotes “typically provide additional disclosures that are necessary to make the financial statements more informative and not misleading.”
- **Paragraph 96D.b** would require reporting entities to disclose the nature of any significant contracts and agreements for which the transitional accommodation was elected. Staff recommends the inclusion of a significance threshold (as was done under par. 37.a and 38.a of SFFAS 54 for intragovernmental leases disclosures). Staff views the significance threshold as being consistent with SFFAC 2, paragraph 68, the concept of materiality under SFFAC 1, *Objectives of Federal Financial Reporting*, paragraphs 164.a-g, and the qualitative characteristics of reliability under SFFAC 1, paragraph 160.



**Question for the Board #4:**

4. Do members have feedback on the proposed addition of paragraph 96D under paragraph 5 and related disclosures?

The basis for conclusions in attachment 2 is organized as follows:

- Paragraphs A1-A5 provide a high-level project history. These paragraphs are generally consistent with other post-issuance activity proposals' bases for conclusions.
- Paragraph A6 frames SFFAS 54 implementation activities and the benefits of the standard at a high level. This paragraph is consistent with paragraph A19 of SFFAS 54.
- Paragraph A7 focuses on the costs of implementation and prior decisions of the Board associated with contracts or agreements with multiple components intended to reduce such costs. The subparagraphs under paragraph A7 are generally consistent with paragraph A25 of SFFAS 54. Staff believes that these prior decisions will provide relevant context to potential respondents.
- Paragraph A8 transitions into the perceived benefits of the transitional accommodation, with paragraph A9-A11 providing more specific rationale with respect to why the Board would likely propose additional time for embedded leases. This rationale can be further modified or expanded based on the Board's May deliberations and feedback from members.
- Paragraph A12 provides clarification and helpful context regarding the transitional accommodation proposal's potential interactions with affected contracts or agreements that also happen to be within the scope of SFFAS 49, *Public-Private Partnerships*.

**Question for the Board #5:**

5. Do members have feedback on the drafted basis for conclusions?





# TRANSITIONAL AMENDMENT TO SFFAS 54

**Statement of Federal Financial Accounting Standards XX**

**Exposure Draft**

Written comments are requested by **June XX, 2023**

**July XX, 2023**

**Public comments are not requested on this draft**

## 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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June XX, 2023

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 (SFFAS) titled *Transitional Amendment to SFFAS 54*. Specific questions for your consideration appear on page **Error! Bookmark not defined.**, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by July XX, 2023.

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,

Signature to be added after receipt of ballots

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 the implementation section of SFFAS 54 by providing transitional accommodations to reporting entities implementing SFFAS 54, *Leases*, in the area of “embedded leases” (a common industry term which generally describes contracts or agreements that contain lease and non-lease components and the related requirements of SFFAS 54, paragraphs 72-77).

The proposal would allow reporting entities to prospectively apply the provisions of SFFAS 54 to lease components of new or modified contracts or agreements meeting all of the embedded leases eligibility criteria beginning after September 30, 2025, or earlier. Leases that do not meet the embedded leases eligibility criteria under this proposal would continue to follow the implementation provisions of paragraphs 96-98 of SFFAS 54. The proposal also would require certain disclosures for reporting entities electing the transitional accommodation.

The proposal will provided additional time needed for several reporting entities to review, analyze, and apply the requirements of SFFAS 54 to contracts or agreements with embedded leases meeting the eligibility criteria in this proposal.

### MATERIALITY

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The provisions of this Statement of Federal Financial Accounting Standards would not need to be applied to information if the effect of applying the provision(s) is immaterial.<sup>1</sup> A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

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<sup>1</sup> Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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## 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 for respondents (QFR) 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 XX, 2023**.

**QFR1.** Do you generally agree or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.

**QFR2.** Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements (or portfolios thereof) that meet both of the following criteria: (a) the contracts or agreements contain nonlease component(s) and may contain lease component(s), and (b) the purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components. Paragraph 96B provides additional criteria for assessing the primary purpose in accordance with 96A.b.

Please provide feedback on these proposed transitional accommodation scope and applicability criteria.

**QFR3.** Proposed paragraph 96C provides that reporting entities may elect not to assess whether contracts or agreements meeting all of the paragraph 96A criteria are or contain leases (a) existing as of October 1, 2023, and (b) subsequently entered into or modified prior to the beginning of the reporting period of transition. The entity making such an election would prospectively apply the provisions of paragraph 73 of SFFAS 54 to new or modified contracts or agreements meeting all of the paragraph 96A criteria for reporting periods beginning after September 30, 2025, or earlier. In the reporting period of transition, the lease terms for such leases would assume that the lease term began as of the beginning of the reporting period of transition (October 1, 2025, or earlier). The lease liability and lease asset (for lessees) or lease receivable and unearned revenue (for lessors) would initially be measured based on the remaining lease term and associated lease payments as of the beginning of the period of transition (October 1, 2025, earlier).

Please provide feedback on these proposed transitional accommodation provisions, which are intended to provide practitioners with additional time for identifying, analyzing, and reporting leases embedded in their portfolios of contracts or agreements. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views.

- QFR4.** Proposed paragraph 96D provides that reporting entities electing the transitional accommodation would (a) disclose the election during the reporting period(s) presented, and (b) the nature of any significant contracts and agreements (or portfolios thereof) for which the transitional accommodation was elected.

Please provide feedback on the proposed disclosure requirements. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views.



## PROPOSED STANDARDS

### SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. This Statement amends SFFAS 54, *Leases*, by inserting paragraphs 96A-96D in between paragraphs 96 and 97.

### PROPOSED TRANSITIONAL AMENDMENT TO SFFAS 54

3. Paragraph 72 of SFFAS 54, *Leases*, acknowledges that lessees and lessors may enter into contracts or agreements that contain both a lease component and a nonlease component. Paragraph 73 provides that the federal entity should account for lease and nonlease components as separate contracts or agreements.
4. Contracts and agreements that contain both lease component(s) and nonlease component(s), such as service components, are often referred to in practice as “embedded leases.”
5. Paragraphs 96A-96D are added to SFFAS 54 as follows:

**96A.** The below transitional accommodation applies only to contracts or agreements (or portfolios thereof) that meet both of the following criteria:

- a. The contracts or agreements contain nonlease component(s) and may contain lease component(s), and
- b. The purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components. See paragraph 96B criteria for assessing the primary purpose.

**96B.** To assess whether the primary purpose of contracts or agreements (or portfolios thereof) is attributable to the nonlease component(s), lessees and lessors should understand the nature of the contracts or agreements. The primary purpose may only be attributed to the nonlease component(s) provided that both of the following criteria are met:

- a. the attribution does not appear to be unreasonable based on the terms of the contracts or agreements and professional judgment, and
- b. the nature of the contracts or agreements within the portfolio assessed is reasonably consistent based on the terms of the contracts or agreements and professional judgment.

**96C.** A reporting entity may elect not to assess whether contracts or agreements (or portfolios thereof) meeting all of the paragraph 96A criteria above are or contain leases (a) existing as of October 1, 2023, and (b) subsequently entered into or modified prior to the beginning of the reporting period of transition. The entity making such an election should prospectively apply the provisions of SFFAS 54, paragraph 73, to new or modified contracts or agreements meeting all of the paragraph 96A criteria above for reporting periods beginning after September 30, 2025, or earlier (the reporting period of transition).<sup>12</sup> In the reporting period of transition, the lease terms for such leases would assume that the lease term began as of the beginning of the reporting period of transition (October 1, 2025, or earlier). The lease liability and lease asset (for lessees) or lease receivable and unearned revenue (for lessors) should initially be measured based on the remaining lease term and associated lease payments as of the beginning of the period of transition (October 1, 2025, or earlier).

FN 12 – Contracts or agreements with lease terms commencing or lease modifications effective as of October 1, 2025, and beyond (or earlier, if the reporting entity elects to transition in the reporting period beginning October 1, 2023, or October 1, 2024).

**96D.** A reporting entity electing the above transitional accommodation should disclose the following:

- a. The election of the transitional accommodation during the reporting period(s) presented.
- b. The nature of any significant contracts and agreements (or portfolios thereof) for which the transitional accommodation was elected.

## EFFECTIVE DATE

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

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

## APPENDIX A: BASIS FOR CONCLUSIONS

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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 subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

### PROJECT HISTORY

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- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) issued SFFAS 54, *Leases*, 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. Following the issuance of SFFAS 54, the Board 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 Board and the AAPC have issued the following pronouncements to facilitate implementation of SFFAS 54, including:
  - a. SFFAS 60: *Omnibus Amendments 2021, Leases-Related Topics I*;
  - b. SFFAS 61: *Omnibus Amendments 2023, Leases-Related Topics II*;
  - c. Technical Bulletin 2023-1: *Intragovernmental Leasehold Reimbursable Work Agreements*; and
  - d. Technical Release 20: *Implementation Guidance for Leases*.
- A4. In February 2023, the Board received implementation updates from staff regarding the implementation experiences and challenges within the federal environment. The Board also received several letters from certain reporting entities highlighting implementation challenges that they were experiencing.
- A5. Following an April 2023 clarification discussion, the Board decided to provide transitional accommodations to reporting entities in the area of embedded leases based on the research presented by technical staff and additional information provided during the clarification discussion.

- A6. The Board is aware that SFFAS 54 requires entities to ensure their leases are appropriately identified for evaluation, which can improve accountability for their resources and obligations. As noted in Statement of Federal Financial Accounting (SFFAC) 1, *Objectives of Federal Financial Reporting*, accounting can and should contribute to achieving and demonstrating several aspects of accountability, such as:
- a. accountability for financial resources;
  - b. accountability for faithful compliance or adherence to legal requirements and administrative policies;
  - c. accountability for efficiency and economy in operations; and
  - d. accountability for the results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.
- A7. When developing SFFAS 54, as amended, the Board made several decisions in the interest of reducing implementation costs associated with contracts or agreements with multiple components, including, but not limited to, provisions regarding:
- a. Allowing a short-term lease exception
  - b. Allocation of the contract price to multiple components of a lease that allows the stated prices to be used if they do not appear to be unreasonable
  - c. Allocation of the contract price to multiple components that allow best estimates to be used for allocation if no separate prices are included in the contract or if the stated prices appear to be unreasonable
  - d. The requirement to treat an entire multiple-component contract as a single lease unit if determining a best estimate is not practicable
  - e. The exclusion of intragovernmental leases from balance sheet recognition and measurement as lease liabilities and corresponding lease assets (for intragovernmental lessees) and lease receivables and unearned revenues (for intragovernmental lessors)
  - f. The extension of the effective date until fiscal year 2024
  - g. Prospective implementation at transition, as opposed to a retrospective approach
- A8. In developing this proposal—and notwithstanding the original decisions in reducing implementation costs—the Board generally agrees that the initial implementation of the standards to contracts or agreements meeting paragraph 96A criteria are necessary and appropriate when performed correctly and operationalized in a manner consistent with the concept of materiality. The Board also agreed, however, that reporting entities would benefit considerably from the proposed transitional accommodation, which will provide additional time to perform implementation activities for such contracts or agreements.
- A9. The Board also agreed that reporting entities should have the flexibility to begin recognizing lease liabilities (and correspondent lease assets) for lease components of

new or modified contracts or agreements meeting the paragraph 96A criteria prospectively beginning in fiscal year 2026, or earlier.

- A10. The Board expects that SFFAS 54 implementation activities, such as assessing control, allocating contract prices, among other complexities, are likely to be comparatively time consuming for embedded leases. An additional two years will provide reporting entities with additional time to focus and prioritize implementation activities for contracts or agreements with a primary purpose attributable to lease components during fiscal year 2024, followed by up to two additional fiscal years to continue implementation activities for “embedded leases” meeting paragraph 96A criteria.
- A11. The Board expects that most contracts with meeting paragraph 96A will oftentimes have lease terms (for any lease components) that are comparatively shorter in relation to contracts with a purpose primarily attributable to lease components (real property leases, for example), given the nature of the related contracts. As a result, the Board believes that a considerable portion of these leases would be recognized relatively quickly under this proposal.
- A12. The Board is also aware that the disclosure requirements of SFFAS 49, *Public-Private Partnerships*, may also apply to contracts that contain “embedded leases.” The transitional accommodation under this proposal would have no bearing on the ongoing implementation of SFFAS 49 disclosure requirements to such contracts, if applicable.

## APPENDIX B: ABBREVIATIONS

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CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FAF	Financial Accounting Foundation
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

### **FASAB Members**

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## Leases Project Plan

	<b>Deferral</b> SFFAS 58 ✓	<b>Implementation Guidance</b> TR 20 ✓ Updates To TR 20	<b>Omnibus</b> SFFAS 60 ✓ SFFAS 61 ✓	<b>Leases-Related Intragov. RWAs</b> TB 2023-1 ✓	<b>Transitional Accommodation</b> SFFAS TBD	<b>Training / Outreach</b>
FY 2020	Draft Exposure Period Finalize / Approve 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	Finalize / Approve Issuance TB 2023-1 ISSUED		Provide
FY 2023 Q3		Draft Exposure Period	Issuance SFFAS 61 ISSUED		Research Draft Exposure Period	Provide
FY 2023 Q4		Finalize / Approve Target Issuance			Exposure Period Finalize / Approve	
FY 2024 Q1	Effective reporting period				Target Issuance	
FY 2024 Q2 ...						

Last updated: May 2023.