

## Memorandum

### Leases

August 9, 2023

To: Members of the Board  
From: Ricky A. Perry, Jr., Senior Analyst  
Thru: Domenic N. Savini, Acting Executive Director  
Subject: **Analysis of comment letters - leases transitional amendment** (Topic B)

#### INTRODUCTION

The briefing material includes staff's preliminary analysis of comment letters received on the Board's leases transitional amendment proposal and staff-recommended changes in response to those comments. Please note that this preliminary analysis does not include the customary Table charts usually provided with staff's comment letter analyses. 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 14

**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), which reflect staff-recommended changes based on respondent feedback, and if possible, respond to the ensuing questions by August 14th.

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) and Mr. Savini at [SaviniD@fasab.gov](mailto:SaviniD@fasab.gov).

#### NEXT STEPS

**Pending Board member feedback**, staff will continue to finalize the proposal if a majority of the Board continues to support moving forward to a ballot. Please note that the project plan (attachment 4) is preliminary and subject to change based on the Board's August re-deliberations and decisions. For additional staff analysis and recommendations with respect to next steps, please refer to attachment 1.

#### ATTACHMENTS

1. Staff recommendations and analyses

2. Updated draft SFFAS, marked since exposure draft with staff-recommended edits
3. QFR responses, with staff analysis and notes
4. Leases project plan

## REFERENCE MATERIAL

1. [Compendium of comment letters](#)
2. [\*Transitional Amendment to SFFAS 54 \(exposure draft\)\*](#)

## Staff Analysis

### Leases

August 9, 2022

#### CONTEXT

As part of the leases post-issuance project, the Board has identified and proposed transitional amendments to SFFAS 54, *Leases*.

FASAB received 21 responses from the following sources:

	FEDERAL	NON-FEDERAL	TOTAL
Associations		2	<b>2</b>
Auditors/Accounting Firms		1	<b>1</b>
Preparers and financial managers	18		<b>18</b>
Individuals			
Others			
<b>Total</b>	<b>18</b>	<b>3</b>	<b>21</b>

Members are asked to read the comment letters prior to reviewing the staff analysis and recommendations. Comment letters are posted at <https://www.fasab.gov/transitional-amendment-to-sffas-54/>. Respondents are identified in the order their letters were received.

#### SUMMARY OF RECOMMENDATIONS AND ANALYSES

A majority of respondents, 16 of 21, indicated general support of the proposed transitional amendment. These respondents cited a number of reasons for their support. A few respondents provided technical feedback and suggested revisions to the proposed Statement, some of which staff has preliminarily agreed with.<sup>1</sup>

Please note that although 15 respondents agreed or partially agreed with the alternative view, some also expressed concerns with its technical implementation. To that end, the ensuing staff

<sup>1</sup> As previously noted under the cover memo above, the staff analysis does not include all of the customary tables and analysis of individual comments in QFR matrices due to the timing of comment letter submissions, the highly complex and diverse nature of the feedback provided, and the timeline for releasing materials for Board deliberations.

analysis provides conceptual, technical, procedural, and other considerations related to the alternative view to assist members during re-deliberations.

The following analysis and recommendations propose that the Board proceed with finalizing the proposal, with minor revisions to address certain feedback provided by respondents. Staff also recommends extending the maximum accommodation period to three years based on feedback.

## ANALYSIS

### Analysis of Responses to Question for Respondents (QFR) #1:

**QFR 1.** *Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.*

Sixteen of 21 respondents generally agreed or partially agreed with the proposals to provide transitional amendments to SFFAS 54, *Leases*. A majority of the respondents agreeing or partially agreeing noted that the proposals would provide needed time for reporting entities to properly account for “embedded leases” in accordance with SFFAS 54 (#3, 5, 7, 11, 12, 14, 16, 17, 19, 20, 21).

Six of 21 respondents disagreed or partially agreed with the transitional amendment proposal (#6, 8, 13, 15, 17, 20). These respondents provided a variety of reasons for their views. Some respondents elected to disagree or partially disagree with the proposals based on their support for the alternative view, while others cited concerns that the accommodation period may need to be lengthened or further expanded.

A few respondents did not appear to fully understand the extent to which the proposals would provide transitional implementation relief. Specifically, a few responses described planned implementation actions that the proposed relief is intended to provide. Specifically, eligible contracts or agreements entered into or modified prior to the end of the accommodation period would be accounted for as nonleases for their remaining term, unless they are subsequently modified (see par. 96B of attachment 2).

Responses highlighting the challenges with implementing paragraphs 72-77 of SFFAS 54 “embedded leases” did not generally appear to address that these paragraphs are carried over from longstanding, current federal GAAP under the Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) Topic 840-10-15, paragraphs 16-19, which requires separating lease and nonlease elements of “embedded leases” under “multiple-element arrangements.” The FASAB and GASB both elected to bring these provisions into SFFAS 54 and GASB Statement No. 87, *Leases*, respectively, based on extensive due process and deliberations.<sup>2</sup>

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<sup>2</sup> See GASB 87, par. 63-68.

Additionally, several federal respondents (#1, 2, 3, 4, 14) noted that “embedded leases” are expected to be immaterial in their responses to QFR 1. Nonfederal respondents provided similar feedback under subsequent QFRs that “embedded leases” are either immaterial individually or in the aggregate, while some portfolios of “embedded leases” are likely candidates for existing accommodations provided under paragraph 76 of SFFAS 54 (#8, 19).

Members are reminded that longstanding GAAP requires federal reporting entities to apply the classification, recognition, measurement, and disclosure requirements of ASC Topic 840 to lease elements of multiple-element arrangements.<sup>3</sup> For example, for operating leases, federal lessees are required to disclose rental expense for each reporting period presented; future minimum rental payments as of the latest balance sheet date presented, in the aggregate and for each of the five succeeding years; and the total of minimum rentals to be received in the future under noncancelable subleases.<sup>4</sup>

Based on staff’s preliminary review, we did not identify any recommended changes to the ED proposals based on QFR 1 responses.

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

1. Do members have any questions or concerns as it relates to the responses received in response to QFR #1?

#### Analysis of Responses to QFR #2 (and par. 96A):

**QFR 2.** Please provide feedback on **paragraphs 3-4 and paragraph 5 (96A criteria)**, which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.

#### Scoping in “Embedded Leases”

Respondents generally agreed that paragraph 96A would effectively scope in “embedded leases.” Several respondents explicitly noted this in their comments (#1, 2, 4, 7, 9, 10, 12, 14, 15, 18, 19).

<sup>3</sup> See ASC 840-10-15, par. 17.

<sup>4</sup> See ASC 840-20-50, par. 1-2. Under ASC 840-10-50, par. 2, lessees are also required to disclose a general description of their leasing arrangements, including, but not limited to (a) the basis for which contingent rental payments are determined, (b) the existence and terms of renewal and purchase options and escalation clauses, (c) restrictions imposed by lease agreements, such as those concerning dividends, additional debt, and further leasing.

A few respondents suggested clarification of the contextual language provided under paragraphs 3-4. Staff reminds the Board that these paragraphs are for explanatory rather than authoritative guidance purposes, as they do not amend SFFAS 54. Although staff recommends keeping the paragraphs for context, additional clarifying edits to better align the information provided under paragraph 3 with the authoritative criteria under paragraph 73 of SFFAS 54 would be helpful (see tracked changes to par. 3 under attachment 2).

One respondent encouraged the Board to remove the term “may” under proposed paragraph 96A.a. Their rationale is that agencies will have to first evaluate all individual contracts for any potential “embedded leases” and therefore, adding the word “may” assumes that the evaluation was not performed. Please note that the Board intentionally included this term in the criteria in order to alleviate burden associated with identifying “embedded leases” during the accommodation period. Preparers need not conclusively determine whether all contracts or agreements contain an “embedded lease” component under the proposed eligibility criteria. Nevertheless, staff suggests including discussion in the basis for conclusions that paragraph 96A is not premised on nor does it require certainty during the transitional amendment period as to whether an “embedded lease” is part of a contract or agreement.

Similarly, other respondents interpreted paragraphs 4 and 96A.a as providing a definitional criteria for “embedded leases.” Paragraph 4 is intended to only provide contextual information concerning the proposed amendments under paragraph 5; it does not authoritatively define any term. It is important to note that several respondents found the information provided under these paragraphs to be instructive and understandable.

#### Preparer Level of Effort

Respondents held mixed views related to the level of effort for applying the criteria of proposed paragraph 96A. Some respondents found the criteria to be “readily understandable,” “reasonable,” “practical,” and “sufficient to greatly reduce implementation burdens” (#4, 7, 9, 12, 15, 19). Other respondents cited concerns surrounding level of effort in applying the criteria. For example, a few respondents expressed concerns surrounding subjectivity in attributing the primary purpose (#5, 6, 10, 11, 12, 13, 14). Among these, some suggested additional guidance or criteria. Staff reminds the Board that the proposal intentionally allows reporting entities flexibility in exercising professional judgment. In developing criteria that the primary purpose attribution “should not appear to be unreasonable,” the Board duly considered the level of effort necessary for implementing the accommodation.

One respondent (#7) observed that inconsistencies in practice for attributing primary purpose can be expected, but that additional guidance may not be necessary given the temporary nature of the accommodation. This respondent noted, however, that additional guidance may be necessary if a permanent accommodation were adopted.

#### Staff Recommendation #1:

Staff recommends implementing edits to (contextual) paragraph 3 in order to better align the information provided by this paragraph with the related authoritative criteria under paragraph 73 of SFFAS 54 (see tracked changes to par. 3 under attachment 2). Staff also recommends

including clarifying discussion in the basis for conclusions regarding the design and wording of paragraph 96A.a and its intended effect on reducing the level of effort in applying the eligibility criteria to groups of contracts or agreements.

### Questions for the Board #2 and 3:

2. Do members have any questions or concerns as it relates to the responses received in response to QFR #2?
3. Do members agree with recommendation #1 (and the related edits at attachment 2, par. 3)? Please provide preliminary feedback to staff to facilitate preparation for the meeting.

### Analysis of Responses to QFR #3-5 (and par. 96B-96D):

**QFR 3.** Please provide feedback on the proposed transitional accommodation provisions under **paragraphs 96B-96C**, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.

**QFR 4.** Proposed **paragraph 96B** provides that reporting entities may elect an accommodation period for up to two years prior to the prospective application requirements described in **paragraph 96C**. Please also refer to paragraphs A1-A13 of the basis for conclusions, including paragraph A10, which discusses the Board’s intent that this proposal would provide additional time to prepare for prospective implementation of paragraph 73 for new or modified “embedded leases.”

Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent. Please describe the reasons for your views and relevant considerations to facilitate the Board’s analysis of your comments.

**QFR 5.** Proposed **paragraph 96D** provides that reporting entities may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.

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

### Paragraphs 96B-96C

A substantial majority of respondents were generally supportive of the design of paragraphs 96B-96C (#2, 4, 5, 7, 9, 11, 12, 13, 14, 16, 17, 19, 21). Several respondents indicated that the

proposed paragraphs are likely to operate as intended. Some respondents noted that the proposals are reasonable and balanced, affording practitioners an appropriate level of flexibility and criteria for transitional purposes. Those taking exception generally requested further relief or guidance, including lengthening the proposed accommodation period.

#### Paragraph 96D

Respondents to QFR 5 were consistently supportive of proposed paragraph 96D (1, 2, 4, 5, 6, 7, 9, 10, 12, 13, 14, 15, 16, 17, 18, 19, 21), which would allow reporting entities to apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. Respondent feedback indicated that paragraph 96D is likely to operate as intended and reduce the level of effort associated with the application of the proposed amendments to eligible groupings when elected. One respondent cited concerns that the grouping of contracts may add another lay of complexity to applying the accommodation (#20).

#### Staff Analysis

Paragraphs 96B-96D provide considerable accommodations. Specifically, they allow reporting entities to account for all existing eligible contracts or agreements as nonlease in their entirety during the accommodation period. The proposed accommodation would also allow reporting entities to prospectively apply the provisions of paragraph 73 to only new or modified contracts or agreements following the accommodation period, thereby allowing existing contracts or agreements, including those with immaterial modifications, to continue to be accounted for as nonlease after the accommodation period.

These accommodations afford additional time to develop an approach for identifying “embedded lease” components of eligible contracts or agreements and prospectively performing separations on material classes of underlying assets and portfolio types. These accommodations provide significant relief on longstanding requirements to perform these analyses and separations for operating and capital leases under ASC 840 as entities adopt SFFAS 54. Notwithstanding, several respondents suggested further expanding the relief provided and/or adopting some or all elements of the alternative view proposals (#1, 2, 4, 6, 9, 10, 12, 13, 14, 15, 16, 17, 18, 20, 21). This feedback is analyzed under the “QFR 7 analysis” and “other technical and procedural considerations” sections below.

There was no clear consensus among respondents with respect to the length of the accommodation period. Although many federal respondents agreed that the accommodation period was sufficient, others requested an accommodation period of three or four years. Some federal respondents did not appear to reach internal consensus on this matter. Non-federal respondents, while generally less supportive of the proposal as a whole, also held a variety of views with respect to the proposed accommodation period length.

In addition to the respondent feedback provided, staff also considered the following factors when analyzing accommodation period length and crafting recommended options for the Board to consider:



1. Users of general purpose federal financial reports for entities with material “embedded leases” would benefit from the accountability/transparency associated with separate accounting for “embedded lease” components of contracts or agreements.
2. The longstanding nature of GAAP under ASC 840 and SFFAS 54, paragraphs 72-77.
3. Conceptual, technical, and procedural considerations (see related section below).
4. Existing accommodations provided by paragraph 76 of SFFAS 54; SFFAS 58, and the proposed transitional amendments.

Based on these factors, on balance, staff continues to support maintaining the transitional nature of the proposal. Staff also recommends a Board discussion on the transitional accommodation period length. Please note that staff recommends extending the maximum accommodation period to three years based on feedback.

Due to technical and procedural considerations (discussed below), staff views the following options as viable at this time; however, there are other re-deliberative considerations, and the Board may wish to discuss other options, such as forgoing the transitional accommodation altogether.

#### Options

- A. Keeping the two year accommodation period, as proposed.
- B. Extending the accommodation period to 3 years.
- C. Extending the accommodation period to 4 years.

#### Staff Recommendation #2:

On balance, staff recommends extending the proposed accommodation period to 3 years (option B), with no further changes other than the related edits at attachment 2, paragraph 5, to paragraphs 96B-96D (see tracked changes to par. 5 under attachment 2).

#### **Questions for the Board #4 and 5:**

4. Do members have any questions or concerns as it relates to the responses received in response to QFRs #3-5?
5. Do members agree with recommendation #2 (and the related edits at attachment 2, par. 5)? Please provide preliminary feedback to staff to facilitate preparation for the meeting.

Analysis of Responses to QFR #6 (and par. 96E):

A majority of respondents were generally supportive of the proposed disclosure requirements of paragraph 96E. Although a few respondents suggested that the Board consider implementing clarifying edits to the paragraph to ensure consistent application (#7, 10), most respondents generally understood the proposal. Some respondents understood the rationale—and a few did not understand the rationale—for requiring disclosure of the accommodation election in the reporting period immediately following the accommodation period.

Staff Recommendation #3:

While staff does not recommend changes to the proposed paragraph 96E, staff recommends Board discussion in the basis for conclusions to facilitate understanding of the rationale for requiring disclosure in the reporting period immediately following the accommodation period. Staff would implement changes to the basis for conclusions after Board deliberations on this matter.

**Questions for the Board #6 and 7:**

6. Do members have any questions or concerns as it relates to the responses received in response to QFRs #6?
7. Do members agree with recommendation #3? Please provide preliminary feedback to staff to facilitate preparation for the meeting.

Analysis of Responses to QFR #7:

Fifteen of 18 federal respondents generally agreed or partially agreed with the alternative view of four Board members. Two of three non-federal respondents disagreed with or expressed concerns in response to the alternative view.

Several respondents—some who agreed and some who disagreed with the alternative view—acknowledged and identified a host of conceptual and technical concerns and considerations that would likely require extensive study (#7, 8, 9, 11, 13, 17, 19).

Respondent concerns and considerations of the alternative view include:

- Distortion of reported lease assets, lease liabilities, amortizations and interest costs, and disagreement regarding the offsetting effects of the alternative view. For example, some reporting entities may have significant contracts or agreements with a primary purpose attributable to services that also have material lease components.
- Modifications changing the primary nature of the contract.

- Challenges associated with the proposed accommodation and alternative view may meet the exception provided by paragraph 76 of SFFAS 54 or existing relief provided by the materiality provision of the standard.
- Determination of the impact on budgetary accounting, reporting, and government-wide inconsistencies in practice, including intragovernmental considerations.
- Potential misuse or overuse.
- Potential interacting and permanent effects on the other topic areas in SFFAS 54 and other Statements, including short-term leases, intragovernmental leases, and public-private partnerships, and the related qualitative characteristics and federal financial reporting objectives supported by these criteria.
- Differences between the alternative view and the practical expedient provided by the FASB under ASC 842-10-15-37. For example and most notably, FASB's practical expedient is only available to lessees, while the alternative view proposal would be available to lessors, some which have material leases activity.

While many of the above respondent concerns and considerations are also applicable to the transitional accommodation proposal to some extent, the temporary nature of the proposed transitional amendment is a mitigating comparative factor.

#### Other Conceptual, Technical, and Procedural Considerations Associated with the Alternative View That Would Require Further Research

##### **Unit of Account**

Unit of account refers to the level of aggregation or disaggregation applicable to one or more components of a contract or agreement to be considered for recognition, measurement, and disclosure in the financial statements and notes. The alternative view provides for a contract-level unit of account based on primary purpose—a significant change that would require additional research given the following:

- Federal contracts and agreements can have highly material lease and nonlease components.
- The component-level unit of account measurement approach provides more decision useful information for users, as contract components can have heterogeneous measurement attributes and approaches.<sup>5</sup>
- The contract-level unit of account measurement approach based on primary purpose introduces high levels of aggregation and subjectivity and may not always faithfully

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<sup>5</sup> See SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Period After Initial Recording*, par. 7-9, for conceptual fundamentals related to measurement approaches and attributes. SFFAC 7, par. 37, provides that the measurement methods may affect the degree to which qualitative characteristics are met. The qualitative characteristics are discussed under SFFAC 1, *Objectives of Federal Financial Reporting*.

represent the measurable characteristics and underlying substance of the contracts' components and the related economic activity and transactions.

### **Effects and Interactions with Existing Level A Guidance**

Based on staff's preliminary analysis, the alternative view, which represents a significant and permanent change when compared to the proposal, would have several interacting and cross-cutting effects on the operation of SFFAS 54 and other Statements. Examples include:

- Paragraphs 26-38 of SFFAS 54
  - The alternative view proposals would affect the application of these paragraphs. Staff has not studied the effects of the alternative view proposal on intragovernmental leases. For example, paragraphs 37.b and 38.b require intragovernmental lessees to disclose annual lease expenses and lessors to disclose future lease payments to be received, respectively. The alternative view proposals would affect these disclosed amounts. The Board and AAPC would likely need to study and provide guidance on how to measure these amounts.
- Paragraphs 44, 61, and 85- 86 of SFFAS 54
  - These paragraphs provide requirements for remeasuring lease liabilities and receivables when lease modifications occur. The alternative view proposals would affect remeasurements when the primary purpose of a contract is attributed to the lease component and the entire contract is accounted for as a single lease unit. Practitioners would need to account for nonlease component modifications as lease component modifications. Accordingly, they would remeasure the lease liability or lease receivable when the nonlease component modification is significant, resulting in more frequent lease liability and lease receivable remeasurements.
- Paragraphs 43 and 60 of SFFAS 54
  - These paragraphs provide requirements for lessees and lessors to recognize interest expense and interest revenue. The alternative view proposals would affect these amounts. Staff has not studied the effects of the alternative view proposals on interest expense and interest revenue recognition and the extent to which such changes might inadvertently undermine the original intent and design of SFFAS 54.
- Paragraphs 54 and 67-68 of SFFAS 54
  - These paragraphs provide disclosure requirements for leases with the public. The alternative view would affect these disclosures. The effects on disclosures that could be introduced by the alternative view proposal have not been studied.

- Paragraphs 72-77 of SFFAS 54
  - The alternative view proposals would likely amend this topic area. The Board would need provide considerable implementation guidance for adopting such amendments due to the systemic importance of these paragraphs on the operability of the rest of SFFAS 54 as a whole.
- SFFAS 49, *Public-Private Partnerships*
  - The alternative view proposals would likely have considerable effects on phase 2 of the public-private partnerships project. The potential effects are unknown at this time, but could introduce complicating factors and precedent under that project.

### **Procedural and Technical Agenda Considerations**

- Respondents were not afforded an opportunity to evaluate and provide comments on alternative view proposals in the form of a proposed Statement wherein the effects and interactions with existing guidance would be presented.
- The alternative view would potentially result in significant changes to Technical Release (TR) 20, *Implementation Guidance for Leases*. These potential changes have not been studied. Due to the temporary and transitional nature of the Board's current proposal, the technical guidance provided under TR 20 would not be adversely affected by the transitional amendment proposals; however, permanent changes to paragraphs 72-77 introduce a host of technical guidance complexities and potential amendments.
- SFFAS 54, paragraphs 72-77, represent longstanding generally accepted accounting principles carried over from ASC 840. SFFAS 54 underwent extensive due process. Staff is comfortable with the design and operability of these paragraphs.
- Some stakeholder feedback and guidance candidates submitted to the Board in the comment letters appears to be out of scope for the leases post-issuance project. The purpose of the leases post-issuance project was to clarify SFFAS 54, provide implementation guidance, and facilitate implementation; not to revisit issues satisfactorily addressed and deliberated by the Board.
  - Some of the feedback provided by federal respondents is of a nature similar to stakeholder or task force input that would be provided during the initial research, development, and re-deliberative phases of the Board's original SFFAS 54 project. Such feedback appears to be re-visiting Board decisions that already underwent careful and extensive study, due process, and deliberations.
  - Some of the feedback provided by federal respondents is of a nature similar to preliminary task force or focus group discussions under AAPC projects, re-

examination projects, or post-implementation review projects. Typically staff would hold task force meetings or focus group discussions with subject matter experts to further scrutinize, discuss, study, and validate such feedback prior to elevating guidance candidates to the AAPC or other amendment candidates and technical agenda recommendations to the Board.

**Questions for the Board #8 and 9:**

8. Do members have any questions or concerns as it relates to the responses received in response to QFRs #7?
9. Do members agree with the conceptual, technical, and other considerations provided under staff's analysis of QFR #7? Do members have other factors that they considered when analyzing responses to QFR #7 that they wish to discuss? Please provide preliminary feedback to staff to facilitate preparation for the meeting.

Updates to Appendices A and B

Staff drafted preliminary outline updates to appendix A. Given the forthcoming August meeting deliberations, staff did not draft a basis for conclusions rationale.

Under the rules of procedure, alternative views are only provided in preliminary views or exposure draft documents. Staff will revise the basis for conclusions based on re-deliberations at the August meeting. Notwithstanding, the alternative views section would be removed unless the Board is unable to finalize the proposed Statement or elects to issue a second ED for comment.

Pending Board deliberations, the Board may need to discuss whether to include the non-authoritative illustration appendix in the proposed Statement or not. Staff believes that the illustration would facilitate understanding of the proposed Statement. Notwithstanding, staff does not believe that including the illustration in the final Statement would be critical.

Staff Recommendation #4:

Assuming the Board votes in favor of issuing the transitional accommodation, staff recommends keeping the non-authoritative illustration in appendix B of the final pronouncement.

**Question for the Board #10**

10. Do members agree with recommendation #4 or otherwise wish to remove the illustration under appendix B of the proposed Statement? Please provide preliminary feedback to staff to facilitate preparation for the meeting.



# TRANSITIONAL AMENDMENT TO SFFAS 54

**Statement of Federal Financial Accounting Standards XX**

Working draft. Public comments are not requested on this draft.

Month, DD, 202Y



## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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~~June 27, 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 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 27, 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,~~

A handwritten signature in black ink that reads "George A. Scott". The signature is written in a cursive style and is positioned above a horizontal line.

~~George A. Scott  
Chair~~

## EXECUTIVE SUMMARY

### WHAT IS THE BOARD PROPOSING?

This Statement of Federal Financial Accounting Standards (SFFAS) ~~would~~s the implementation section of SFFAS 54, *Leases*, by providing transitional accommodations to reporting entities implementing SFFAS 54 in the area of “embedded leases” (a common industry term which generally describes contracts or agreements that contain lease component[s] and nonlease component[s], such as service components, and serve a primary purpose attributable to the nonlease component[s] as well as the related requirements of SFFAS 54, par. 72-77).

Under the ~~proposal~~s ~~amendments~~, reporting entities may elect not to assess whether contracts or agreements meeting the eligibility criteria for “embedded leases” are or contain lease component(s) as of October 1, 2023, as well as those subsequently entered into or modified prior to the end of the accommodation period. The contracts or agreements for which this accommodation is applied would be accounted for as nonlease contracts or agreements for their remaining term, unless they are subsequently modified after the end of the accommodation period. The ~~proposal would~~Statement requires reporting entities electing the accommodation to prospectively apply the provisions of SFFAS 54 to lease components of new or modified contracts or agreements meeting the “embedded leases” eligibility criteria beginning October 1, 2023; October 1, 2024; ~~or~~ October 1, 2025; or October 1, 2026.

Leases that do not meet the “embedded leases” eligibility criteria ~~under this proposal would continue to~~should follow the implementation provisions of paragraphs 96-98 of SFFAS 54. The ~~proposal amendments would~~ also require disclosure for reporting entities electing the accommodation.

~~The proposal should reduce implementation time needed for reporting entities to apply the requirements of SFFAS 54 to contracts or agreements with “embedded leases” meeting the eligibility criteria in this proposal.~~

### MATERIALITY

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>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.

<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.

## TABLE OF CONTENTS

Summary.....	1
Standards.....	5
Scope.....	5
Transitional Amendment to SFFAS 54 .....	5
Effective Date.....	6
Appendix A: Basis for Conclusions .....	7
Appendix B: Non-Authoritative Illustration .....	14
Appendix C: Abbreviations.....	16

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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.

Please also review appendices A (basis for conclusions) and B (non-authoritative illustration), which are intended to inform respondent understanding and evaluation of the proposal when responding to the below questions.

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 27, 2023.

**QFR1.** Do you generally agree, partially 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 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.

Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.

**QFR3.** Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.

**QFR4.** ~~Proposed paragraph 96B provides that reporting entities may elect an accommodation period for up to two years prior to the prospective application requirements described in paragraph 96C. Please also refer to paragraphs A1-A13 of the basis for conclusions, including paragraph A10, which discusses the Board's intent that this proposal would provide additional time to prepare for prospective implementation of paragraph 73 for new or modified "embedded leases."~~

~~Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent. Please describe the reasons for your views and relevant considerations to facilitate the Board's analysis of your comments.~~

**QFR5.** ~~Proposed paragraph 96D provides that reporting entities may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.~~

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

**QFR6.** ~~Proposed paragraph 96E provides that reporting entities electing the transitional accommodation would disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure would not need to be repeated during subsequent reporting periods.~~

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

**QFR7.** ~~Four Board members provided an alternative view, which is documented under the basis for conclusions (appendix A), paragraphs A15-A26. Please refer to these paragraphs to review the alternative view as presented.~~

~~Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.~~

## ~~PROPOSED~~ STANDARDS

### SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports, including the consolidated financial report of the U.S. Government, 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-96E 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 of a contract or agreement separately as separate contracts or agreements, unless the contract or agreement meets the exception under paragraph 76 of SFFAS 54.
4. Contracts or agreements that contain both lease component(s) and nonlease component(s), such as service components, and serve a primary purpose attributable to the nonlease component(s), are often viewed in practice as containing "embedded leases."
5. Paragraphs 96A-96E are added to SFFAS 54 as follows:
  - 96A.** The transitional accommodation applies only to contracts or agreements that meet both of the following criteria:
    - a. The contracts or agreements contain nonlease component(s) and may contain lease component(s).
    - b. The purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components, based on management's assessment of the nature of the contracts or agreements and professional judgment. The primary purpose attribution to the nonlease component(s) should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgment.
  - 96B.** For contracts or agreements meeting the paragraph 96A criteria above, a reporting entity may elect to account for such contracts or agreements, including the lease component(s), as nonlease contracts or agreements in their entirety. This election applies to contracts or agreements existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2026<sup>5</sup> (end of the accommodation period).<sup>12</sup> The entity may elect a shorter accommodation period (contracts or agreements subsequently entered into or modified on or prior to September 30, 2025; September 30, 2024, or those existing as of October 1, 2023). The contracts or agreements under this election should be accounted for as

nonleases for their remaining term, unless they are subsequently modified (see below).

FN 12 – Unless the modification affects the primary purpose assessment under par. 96A and results in the primary purpose attribution changing from nonlease component(s) to lease component(s) based on the nature of the modified contract or agreement and professional judgment.

**96C.** Entities electing to apply the accommodation should prospectively apply the provisions of SFFAS 54, paragraph 73, to new or modified contracts or agreements meeting the paragraph 96A criteria above that commence after (or are effective after) the accommodation period.<sup>13</sup> For lease component modifications effective after the accommodation period that relate to contracts or agreements for which the accommodation was previously applied, the lease terms for such leases would assume that the lease term began as of the effective date of the modification for purposes of initial recognition and measurement.<sup>14</sup> For such modifications, 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.

FN 13 – Unless the modification is reported as a separate lease as provided in par. 84. In such cases, the additional lease would be recognized as a new lease, while the original lease component(s) may continue to be accounted for as a nonlease component under the accommodation without prospective application of par. 73.

FN 14 – Unless the modification is reported as a separate lease under par. 84. See footnote 13.

**96D.** A reporting entity may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.

**96E.** A reporting entity electing the above transitional accommodation should disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure need not be repeated during subsequent reporting periods.

## 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

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

- 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:
  - 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*
  - 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 letters from some 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 identify and evaluate leases, which also improves accountability for their resources and obligations. As noted in paragraph 74 of Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, “accounting can and should contribute to achieving and demonstrating several kinds 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, 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 the following:
- a. The allowance of 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. Many contracts or agreements contain both lease and nonlease (generally, but not always, service) components. Previous GAAP provided limited guidance on how to separate lease components and nonlease components of contracts or agreements, even though it required that separation. The Board expects that lease components for such contracts or agreements with a primary purpose *attributable to the lease components* were generally accounted for separately. However, the Board recognizes that separate accounting for lease and nonlease components may not have been consistently performed by many reporting entities for “embedded leases” (that is, contracts or agreements with a primary purpose *attributable to nonlease components*) under previous GAAP.

- A9. Accordingly, the Board also agreed that reporting entities should have the flexibility to begin recognizing lease liabilities and correspondent lease assets (for lessees) and lease receivables and unearned revenues (for lessors) 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 of the underlying assets for component(s) that may be leases, allocating contract prices to lease and nonlease component(s), among other complexities, are likely to be comparatively time consuming for contracts or agreements meeting the paragraph 96A criteria (“embedded leases”). Prospective implementation of paragraph 73 for new or modified contracts or agreements meeting the paragraph 96A criteria would provide reporting entities electing the accommodation with additional time during fiscal years 2024 and/or 2025 to (a) focus and prioritize implementation activities for contracts or agreements with a primary purpose attributable to lease components and (b) prepare for prospective implementation of paragraph 73 for new or modified “embedded leases.”
- A11. The Board recognizes that reporting entities would need to assess the eligibility of contracts or agreements for the transitional accommodation. In crafting this Statement proposal, the Board carefully considered the level of effort necessary to balance the informational benefits of implementing paragraph 73 while also accommodating the identified implementation challenges associated with “embedded leases.” The Statement proposal includes several features to provide that balance:
- Allowing reporting entities to assess the primary purpose of contracts or agreements based on their nature and professional judgment, provided that such attributions cannot appear to be unreasonable based on those factors. The Board believes that this phrasing provides for an appropriate level of preparer discretion and professional judgment.
  - Allowing reporting entities to elect the accommodation period and prospective application period of paragraph 73 for eligible contracts or agreements (that is, fiscal year 2024, fiscal year 2025, ~~or~~ fiscal year 2026, or fiscal year 2027) based on the expected level of time and effort.
  - Allowing reporting entities to apply the provisions of paragraphs 96A-96C to groups of contracts or agreements, provided that the nature of the contracts within such groups is reasonably similar.
  - Limiting resulting disclosures to simply disclosing the election of the transitional accommodation in the reporting period(s) covered by the accommodation period and during the reporting period immediately following the accommodation period. The Board discussed other potential disclosure options, but elected to minimize disclosure burden in order to provide maximum transitional relief.
- A12. The Board expects that most contracts meeting paragraph 96A criteria will have lease terms 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. Accordingly, the Board expects that the perceived benefits of this accommodation ~~would~~ outweigh the perceived informational costs.

- A13. The Board duly considered alternative accommodations for multiple component contracts when developing this ~~proposal~~Statement. Members considered allowing reporting entities to account for contracts or agreements according to their primary purpose (either lease or nonlease) indefinitely. The design of paragraphs 72-77 of SFFAS 54 underwent extensive research, due process, and deliberations. These unamended paragraphs include considerable design accommodations, which are described in paragraph A7.b-d above.
- A14. 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~~ will~~ould~~ have no bearing on the ongoing implementation of SFFAS 49 disclosure requirements to such contracts, if applicable.

## SUMMARY OF OUTREACH AND RESPONSES

- A15. The Board released an exposure draft (ED) proposal on June 27, 2023, for public comment, with comments requested by July 27, 2023. 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.
- A16. FASAB received 21 comment letters in response to the ED. Respondents were generally supportive of the proposed Statement. In response to feedback provided in comment letters, the Board identified and agreed upon further changes to the proposal. Improvements and additional changes included:
- a. Pending Board deliberations.
- A17. The Board considered other input provided by respondents that did not result in further modifications to the Statement:
- a. Pending Board deliberations.

## BOARD APPROVAL

- A18. Pending Board deliberations.

## A15. ALTERNATIVE VIEW OF MR. BELL, MS. JOHNSON, AND MESSRS. MCNAMEE AND VICKS

- ~~A16. Members sometimes choose to express an alternative view when they disagree with the Board’s majority position on one or more points in a proposed standard. The alternative view discusses the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the four members alone. However, the four members’ views may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The material following was prepared by the four members and is presented as an alternative view.~~

- ~~A17. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks agree with the Board that challenges some reporting entities face in implementing SFFAS 54 warrant relief. The transitional accommodation the Board proposes would provide some relief from the challenges inherent in implementing paragraph 73 of SFFAS 54, which addresses accounting by lessors and lessees for contracts that contain both a lease and a nonlease component. Such relief would be limited, however, in that it would be temporary and would apply only to contracts or agreements whose purpose is primarily attributable to their nonlease components. These members believe that making available broader and permanent relief from the requirements of paragraph 73 would substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases.~~
- ~~A18. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks propose that, as a practical expedient, a reporting entity may elect to account for contracts or agreements according to their primary purpose, either lease or nonlease. That is, a contract whose purpose is primarily attributable to its lease components could be accounted for as a lease in its entirety. If a contract or agreement's purpose is primarily attributable to its nonlease components, it could be accounted for using the standards applicable to the nonlease components.~~
- ~~A19. This proposal is similar to the practical expedient Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) Topic 842-10-15-37: "As a practical expedient, a lessee may, as an accounting policy election by class of underlying asset, choose not to separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component."<sup>2</sup>~~
- ~~A20. The proposed practical expedient differs from the FASB's in that it would apply to lessors as well as lessees, and it would allow exemption from lease accounting for contracts or agreements whose purpose is primarily attributable to nonlease components.~~
- ~~A21. The first step in applying this proposed practical expedient would be for the reporting entity to assess whether the primary purpose of a contract or agreement is attributable to its lease component(s) or its nonlease component(s) based on the nature of the contracts or agreements. The primary purpose attribution should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgment. The four Board members proposing this practical expedient intend that this assessment would be of the same nature and extent as the assessment described in paragraph 96A.b of the Board's exposure draft (ED).~~
- ~~A22. After performing this assessment, reporting entities would be allowed under this practical expedient to do the following instead of applying the requirements of paragraph 73 of SFFAS 54:~~
- ~~a. For contracts or agreements whose purpose is primarily attributable to the lease components, reporting entities could choose to account for each separate lease~~

<sup>2</sup> The cited FASB ASC material is copyrighted by the Financial Accounting Foundation (FAF), 801 Main Ave., Norwalk, CT 06851, and was used with permission.



~~component and the nonlease components associated with that lease component as a single lease component.~~

- ~~b. For contracts or agreements whose purpose is primarily attributable to the nonlease components, reporting entities could choose to include the payments/receipts attributable to the lease components as part of the cost/revenue of the nonlease components, which then would be accounted for in accordance with standards applicable to those nonlease components.~~

~~A23. As a further practical expedient, Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks propose to allow a reporting entity to choose not to apply the requirements of paragraphs 85-86 of SFFAS 54 to a contract or agreement for which it has elected the practical expedient described in paragraph A21.a when any modification to such contract or agreement relates only to its nonlease components. Lessees would be allowed to account for the effect of the modifications prospectively as an adjustment to interest expense for the underlying leases rather than remeasuring lease liabilities. Lessors would be allowed to account for the effect of the modifications prospectively as an adjustment to interest revenue for the underlying leases rather than remeasuring lease receivables. This further practical expedient is intended to mitigate the reporting burden that could arise from having to remeasure lease liabilities or lease receivables when only the nonlease components of a contract or agreement—which in the application of paragraph A21.a would not reflect the primary purpose of the contract or agreement—are modified.~~

~~A24. Some may view the practical expedients proposed in paragraphs A20-A22 as unnecessary because reporting entities already have processes for separating lease and nonlease components in accounting for capital leases under the provisions of SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*, that were based on FASB ASC, Topic 840.~~

~~A25. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks would counter that viewpoint by noting that private sector entities also had such processes in place to meet the requirement of ASC 840-10-15-17 that “[i]f an arrangement contains a lease and related executory costs, as well as other nonlease elements, the classification, recognition, measurement, and disclosure requirements of this Topic shall be applied by both the purchaser and the supplier to the lease element of the arrangement.” Nonetheless, as a result of its due process FASB provided the practical expedient of ASC 842-10-15-37 on the basis that “the costs and administrative burden of allocating consideration to separate lease and nonlease components may not be justified by the benefit of more precisely reflecting the right of use lease asset and the lease liability.”<sup>3</sup>~~

~~A26. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks acknowledge that applying paragraph A21.a, above, would result in reporting lease assets and liabilities higher than would have been reported under paragraph 73 of SFFAS 54 and applying paragraph A21.b would result in reporting lower amounts. However, the application of these two provisions would offset each other to a degree, according to these members, and they believe their net effect would likely be immaterial to reporting entities’ balance sheets. This view is based on their understanding of amounts reporting entities currently report as capital leases and disclose as operating leases relative to their total non-~~

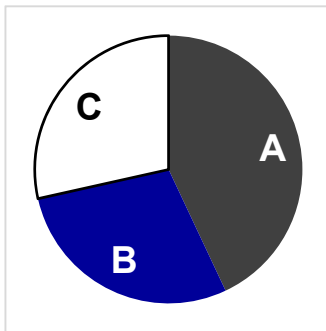
<sup>3</sup> FASB Accounting Standards Update 2016-02, Leases (Topic 842), paragraph BC150.

intragovernmental assets. They also believe any resulting differences in the timing of expense/revenue recognition would likely be immaterial to statements of net cost.

A27. As noted in paragraph A20 above, Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks are proposing that a reporting entity would begin its application of the proposed practical expedient by performing an assessment that would be the same in nature and extent as the assessment it would perform in applying the proposed transitional accommodation. A difference between these four members' proposed practical expedient and the proposed transitional accommodation would be in how the reporting entity would use the results of its assessment of the primary purpose of a contract or agreement. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks believe the results of the Board's due process for this ED would enable the Board to prescribe the underlying assessment or other work reporting entities would need to do to enable relief from certain provisions of SFFAS 54, whether that relief be the transitional accommodation the Board has proposed, the practical expedients described in this alternative view, or some other relief the Board may determine to be appropriate based on its due process.

## APPENDIX B: NON-AUTHORITATIVE ILLUSTRATION

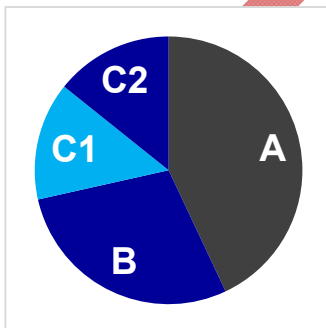
- B1. The below graphic explains the scope and applicability of paragraphs 96-97 and ~~the proposed~~ paragraphs 96A-96E on reporting entities' universes of contracts and agreements. The graphic is intended to facilitate understanding of the Statement proposals. ~~The Board may elect to omit this non-authoritative illustration from the final pronouncement.~~



Many contracts and agreements in the reporting entity's overall universe inherently do not include leases based on their nature (**part A** of the pie chart). For example, contracts to purchase a capital asset. Such contracts are not subject to SFFAS 54 and would not need to be reviewed for "embedded leases."

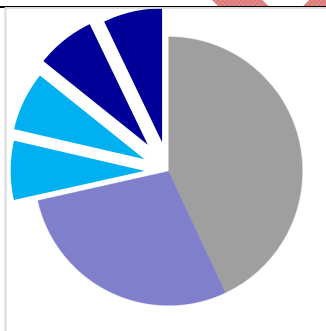
Some contracts and agreements in the universe are inherently known to serve a primary purpose attributable to lease component(s) (**part B** of the pie chart). For example, these generally would have been identified as capital or operating lease elements under previous GAAP. These contracts are subject to SFFAS 54 transitional requirements of par. 96 and 97 and their eligibility need not be assessed for the proposed accommodation.

Other contracts and agreements in the universe contain nonlease component(s) and may also contain lease component(s). The primary purpose of these contracts or agreements may not be inherently known (**part C** of the pie chart). These contracts or agreements may or may not meet both of the two criteria under par. 96A of the proposal.



Of the contracts or agreements under **part C**, the primary purpose of many are attributable to nonlease component(s), such as services. These contracts or agreements meet par. 96A criteria under the proposal, provided that the attributions do not appear to be unreasonable based on their nature and professional judgment. Accordingly, they would be eligible for the proposed par. 96B-96C accommodation (**part C1** of the pie chart).

Other contracts or agreements under **part C** may not have a primary purpose attributable to nonlease component(s) based on their assessed nature and professional judgment. These would not meet par. 96A criteria under the proposal and, therefore, they would be subject to the transitional requirements of par. 96 and 97 (**part C2** of the pie chart) along with those under **part B**.



Provisions of par. 96A-96C of the proposal—including primary purpose assessments—may be applied to groups of contracts or agreements that are reasonably similar in nature, as provided by par. 96D of the proposal.

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**Note:** The size of the “pie” segments are illustrative and not intended to represent the actual or expected relative volume of contracts or agreements in each respective segment.

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## APPENDIX C: ABBREVIATIONS

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ASC	[FASB] Accounting Standards Codification®
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
SFFAS	Statement of Federal Financial Accounting Standards

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1	Social Security Administration
2	Department of the Treasury
3	Small Business Administration
4	Department of Housing and Urban Development
5	Department of Agriculture
6	Department of Veterans Affairs
7	General Services Administration
8	GWSCPA, Federal Issues and Standards Committee
9	Department of Education
10	Department of Homeland Security
11	Environmental Protection Agency
12	Department of Transportation
13	Department of Defense
14	Department of Justice
15	National Aeronautics and Space Administration
16	Department of the Interior
17	Department of State
18	Department of Commerce
19	AGA, Financial Management Standards Board
20	Department of Health and Human Services
21	RMA Associates, LLC

QFR 1: Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.		
Ref. No.	Agreement type	Response
1	Agree	<p>SSA (“we,” “our,” “the agency”) generally agrees with the conforming amendment, and appreciates the deferral provided by the accommodation period. The evaluation of nonlease service contracts for potential “embedded leases” is an exceptionally time-consuming and administratively burdensome process that imposes substantial costs in an overall tight budgetary environment where agency appropriation levels from year to year are uncertain and are not always keeping pace with inflation or unfunded mandates. Specifically, agencies must review hundreds (or even thousands) of contract award actions that each could have hundreds of pages of supporting documentation to glean whether there are any contract provisions that could be interpreted as yielding an “embedded lease.” While this proposed accommodation does not provide as much relief as we were hoping for, the accommodation does allow fo that should give agencies additional time to further develop policies and procedures to account for this activity, and to have time to research and acquire automated solutions where necessary.</p> <p>We appreciate the Board’s willingness to try and provide some relief to agencies. However, we also believe the release of additional standards, guidance, etc., this close to SFFAS 54 implementation is hindering agencies’ ability to focus on implementation. Given the timing constraints, it may be more beneficial, and less confusing, to defer all of the requirements surrounding “embedded leases” for at least two years.</p>
2	Agree	<p>Yes, Treasury generally agrees with the proposed transitional amendment to SFFAS 54 as a whole.</p> <p>However, Treasury believes that the accommodation should be made a permanent option. Treasury has found the agreements that contain embedded leases identified thus far to be immaterial to both the contracts containing them as well as to the agency overall. Therefore, it appears that the level of effort to extract/obtain the necessary information to perform a valuation and subsequent monitoring/reporting efforts greatly exceeds the added value to a financial statement’s reader.</p> <p>In the event the accommodation is not considered for permanent adoption, Treasury recommends either delaying “embedded lease” accounting provisions for another year (total of three years) or applying them on a prospective basis to contracts entered into or modified after September 30, 2023, in order to provide additional time for agencies to further develop their approach for the identification, valuation, and reporting of “embedded leases” and allow them to focus their efforts on lease components at implementation.</p> <p>Further, Treasury recommends amending the definition of “embedded lease” from the agency’s right to control the assets to agency’s control of the leased asset. This amendment would allow for a distinction between assets that are used exclusively by a vendor to accomplish the service and those assets used by the agency. The rationale for this change is that a contract should be accounted for as service when the agency purchases service and does not use the asset.</p>
3	Not specified	No Comment – Is not applicable to SBA
4	Agree	<p>HUD, generally, agrees with the proposed transitional amendment to SFFAS 54. According to the OCFO-Office of Accounting and HUD’s Federal Housing Administration, the proposed amendment allows for the professional judgement of management assessments of the nature of the contracts or agreements.</p> <p>HUD’s Office of Government National Mortgage Association adds that the transitional amendments are helpful for Agencies that may require a phased approach or more time to complete comprehensive assessments of non-lease agreement populations and implement new systems required for recordkeeping, accounting, and reporting.</p>
5	Agree	<p>We agree that this is the most difficult portion of SFFAS 54 to implement. The extra transition time will be helpful but would also be temporary. Farm Production and Conservation (FPAC)</p> <p>Generally, we agree with the proposed amendment to allow agency to defer reporting of embedded leases for up to 2 years. This provides accommodation to identify PP&amp;E-related agreements with lease/non-lease components and to modify contracting processes as needed. Forest Service (FS)</p>
6	Disagree	VA supports the Board’s objective of providing relief to federal entities through transitional accommodation in the area of embedded leases. We do not agree that the transitional accommodation language, as written, meets that objective. We do support the alternative view, with comments, and believe that the alternative view goes much further in meeting the Board’s intent to provide relief.
7	Agree	<p>We generally agree with the proposed transitional amendment as a whole. We greatly appreciate the Board providing additional time for agencies to research our contracts/agreements to properly account for embedded leases. We fully support the Board’s prompt issuance of this proposed transitional accommodation, especially given the limited amount of time remaining before SFFAS 54 becomes effective. Additional time for research will also allow agencies to provide more meaningful data to the Board on this topic and on related issues that the Board may wish to consider in the future.</p> <p>We support the analysis of a contract’s primary purpose as the factor for determining when the transitional accommodation may apply.</p> <p>Additional comments on specific issues are provided in the QFRs below.</p>

**QFR 1: Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.**

Ref. No.	Agreement type	Response
8	Disagree	The FISC also recognizes the challenges some reporting entities are facing in implementing SFFAS 54, Leases, and does not object to deferring the requirements related to "embedded leases". However, the FISC believes that other options would address these challenges without the need for amending SFFAS 54 to provide transitional accommodations and introducing new terms. The FISC suggests the Board consider whether the nature of the challenges some reporting entities are facing relate to contracts or agreements that meet the exception discussed in paragraph 76 of SFFAS 54 and therefore can be addressed through existing guidance. If they do not meet such exception, the FISC suggests that the Board defer the effective date for the requirements related to "embedded leases" only and not provide transitional accommodations. This deferral provides reporting entities the opportunity to resolve their challenges while the Board can continue its discussion and research of the alternative approach offered by certain Board members to determine whether such approach is appropriate to achieve federal financial reporting objectives. The FISC suggests that the research effort would include topics such as ( 1) the determination of the impact of applying the alternative approach on the budgetary accounting and reporting for embedded leases, and (2) consideration of the potential impact on component entities and governmentwide financial statements as a result of the inconsistency in accounting and reporting of embedded leases among reporting entities when some entities follow the requirements that currently exist in SFFAS 54 while others elect the alternative approach. This includes instances where the lessee and lessor in an intragovernmental agreement are not consistently accounting for the lease component of the agreement.
9	Agree	The Department of Education generally agrees with the proposed transitional amendment to SFFAS 54 as a whole. The Department is still analyzing the contracts we have that may contain lease components, and these types of contracts have been the most difficult and time consuming to assess. The transitional amendment provides an option to allow us more time to assess "embedded leases", therefore making the transition to compliance with SFFAS 54 less difficult.
10	Agree	DHS supports the transitional accommodation proposal to prospectively apply the provisions of SFFAS 54 to lease components of new or modified contracts or agreements meeting the "embedded leases" eligibility criteria beginning October 1, 2023; October 1, 2024; or October 1, 2025. Our main reason for supporting this proposal is the additional time it allows us to prioritize implementing contracts or agreements with a primary purpose attributable to non-lease components, as well as additional time to prepare for prospective implementation of embedded leases DHS would begin reporting embedded leases October 1, 2025.
11	Agree	Generally agree.
12	Agree	We generally agree with the proposed transitional amendment for the reasons enumerated within the following responses. As articulated in QFR 7, we also generally agree with the alternate view regarding making the transitional accommodation a permanent practical expedient.
13	Partially agree	<p>Partially agree.</p> <p>The inclusion of an accommodation period (of up to two years) is beneficial as it provides reporting entities with additional time to adequately prepare for the implementation of new or modified embedded leases. Identifying embedded leases in the Department of Defense (DoD) is a complex process that requires significant effort and resources as it requires collaboration with all program and mission support offices. This amendment helps address the challenges associated with identifying and accounting for pre-existing contracts with embedded leases. The allowance for grouping contracts or agreements similar in nature will add some relief to the entity in identifying and accounting for pre-existing contracts already in place.</p> <p>While we agree with implementing the transitional accommodations, we believe that the time period allowed (2 years) is not long enough for large organizations such as the DoD. We recommend incorporating some of the alternative views of select Board members mentioned within Appendix A paragraph A15 – A26, specifically incorporating a long-term approach rather than temporary approach to embedded leases.</p>
14	Agree	DOJ generally agrees with the proposed transitional amendment as a whole, but would prefer the alternate approach in QFR7 as it could permanently solve the issues arising from implementing paragraph 73 of SFFAS 54 while accurately representing our lease liabilities. At a minimum, the transitional amendment will allow DOJ time to implement systemic reporting systems for leases and identify and update contracting practices to more successfully implement the reporting for embedded leases. To achieve accurate financial reporting for embedded leases, DOJ components feel they will need to work with Acquisitions staff on solutions to identify reportable items, for example, including a clause in a service contract requiring vendors to separate reportable items. The transitional amendment will also allow DOJ to focus on accurate reporting of direct leases required under SFFAS 54 in FY2024.

**QFR 1: Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.**

Ref. No.	Agreement type	Response
15	Partially agree	Generally, agree with the proposed transitional amendment, but do not agree that a transitional period will provide meaningful or less costly relief and only serve to complicate reporting of an otherwise basic service contract. Agree with the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks noted in paragraph A16 (and supported in following paragraphs) that making the relief from the requirements of paragraph 73 permanent would “substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases.” Also, many of these contracts or agreements are primarily for service components and are understood by the general public as such. Because the ED contains various disclosure methodologies due to how an agency recognizes lease/nonlease components of predominantly service contracts, the information may not be comparative nor meaningful.
16	Agree	<p>We agree. Providing the transitional accommodation on embedded leases would allow for more time to analyze some of our complex leasing agreements with multiple components (lease and nonlease).</p> <p>DOI would need guidance in OBM Circular A-136 for what this disclosure would entail “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 would also require disclosure for reporting entities electing the accommodation.”</p> <p>It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.</p>
17	Partially agree	<p>The U.S. Department of State (State) appreciates the opportunity to review this proposal and agrees with the proposed transitional amendment partially.</p> <p><b>Partial with Transitional Amendment</b>  State is fully committed to implementing the SFFAS 54 and associated standards. The additional option to extend reporting requirements for embedded leases will allow State to allocate resources to prepare for the other requirements within SFFAS 54 for our significant population of overseas real property leases, while working with our Acquisition organization to accurately quantify and prepare for reporting of embedded leases; however, we are respectfully requesting that the Board provide up to three (3) years to allow for full compliance.</p> <p><b>Transitional Amendment Level of Effort</b>  State estimates that the Transitional Amendment requirements around embedded leases include  1) identifying the population of contracts,  2) determining the components (lease and nonlease) in each contract, and  3) quantifying the lease and non-lease components to categorize whether the purpose of each contract is primarily attributable to the lease or non-lease components to determine whether the transitional amendment applies.  4) Documenting judgements made for the purpose of the contract  5) Reporting accordingly  6) Responding to audit inquiries regarding the judgements made</p> <p>These steps will require a significant level of effort to evaluate, make, document, and respond to inquiries on judgements and could result in an immaterial balance. Even with the transitional amendment, State anticipates needing three (3) years) to implement needed changes to our acquisition systems and to establish contract language for future contracts to segregate lease and nonlease components to better identify, track, and report on the lease components. Therefore, we do not anticipate reporting any embedded leases until after the maximum allowed transition (i.e., FY 2026).</p> <p><b>Request to Expand the Scope of the Transitional Amendment</b>  Given the level of effort still required to identify the purpose of contracts with lease and non-lease components, as described in our response to QFR 2, State is suggesting that the Board consider expanding the transitional amendment to include a delay in evaluating and reporting leases for any lease elements within service contracts not currently identified as a lease.</p> <p><b>Engagement with the Acquisition Community</b>  State recognizes that adding language to contracts and agreements with other parties to require segregating costs for lease and nonlease components will make a significant impact on future reporting of lease components. We recommend that the FASAB Staff and/or Board engage with the Federal acquisition community, including OMB’s Office of Federal Procurement Policy to understand the lead times and level of effort needed across Federal agencies to identify, quantify and apply language to service contracts to efficiently identify and quantify lease and nonlease components.</p> <p><b>Request for Relief Regarding Intragovernmental / Reimbursable Agreements</b>  Federal agencies frequently provide services to each other, which could include joint benefit from service contracts with vendors that contain embedded leases. The proposed transitional accommodation and proposed practical expedient discuss agreements and contracts but do not provide specific accommodations for Federal transactions.  Even with the current guidance in SFFAS 54 that categorize these leases as expenses for the lessee, the level of effort to review these arrangements will be extensive and without benefit. Would FASAB consider a permanent expedient to remove requirements for reporting embedded leases between agencies as lease expenses and only recognize the lease expense by the agency who enters into the contract with the non-Federal vendor?</p>

**QFR 1: Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.**

Ref. No.	Agreement type	Response
18	Not specified	<p>The Department is very appreciative of FASAB's significant and extensive efforts including a) FASAB's collection of information and review of preparer circumstances and feedback regarding the SFFAS 54 implementation and ongoing application for embedded leases; and b) FASAB's development of a proposed transitional accommodation and an Alternative View for review/comment.</p> <p>The Department is very respectfully strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26), which proposes broader, permanent relief including of optional practical expedience approaches by a preparer as compared to transitional relief. The Department believes that it is important to note that the Alternative View does not require a preparer's adoption of the practical expedience approaches set forth.</p> <p>The Department strongly believes that the proposed Alternative View including the optional practical expedience approaches sets forth an appropriate and supportable costeffective balance of a broader and permanent approach for an amendment to SFFAS 54 regarding providing relief to preparers regarding financial accounting and reporting for embedded leases, while appropriately providing meaningful and appropriate financial reporting information to users of the financial statements and appropriate burden/costs to preparers regarding financial accounting and reporting for embedded leases.</p> <p>The Department believes that the Alternative View approach set forth could significantly reduce the implementation burden and ongoing burden/cost of financial accounting and reporting to preparers without substantially diminishing the quality and usefulness of financial reporting to users, as discussed in Alternative View paragraph A.16.</p>
19	Agree	We generally agree with the proposed transitional amendments. The amendments would provide a substantial accommodation for many agencies by narrowing the scope of contracts evaluated in the first few years of implementation.
20	Partially agree	Based on government-wide discussions, agencies need additional time to examine agreements to determine if there is a lease component. The transitional accommodation will still require a heavy lift of agencies to identify the primary purpose of all contracts/agreements. The implementation of October 1, 2023 is challenging given this late transitional accommodation, since the primary purpose of the agreement needs to be determined for lease components. We partially agree with the proposed transitional amendments because we feel the alternative view is the best approach for HHS.
21	Agree	RMA generally agrees with providing transitional accommodations to reporting entities, regarding embedded leases.



**QFR 2: Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements that meet both of the following criteria: (a) the contracts or agreements contain nonlease components(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.**

**Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.**

Ref. No.	Response
1	We believe the paragraphs effectively scope in “embedded leases.” We are grateful for the accommodation but would like to note there will still be a significant level of research required to determine whether hundreds (or thousands) of contracts may have minor parts that could be considered “embedded leases.” Therefore, we support the inclusion of paragraph 96D that allows for a grouping of similar contracts, which we believe would have the effect of mitigating some of the burden of this research.
2	Treasury agrees that the transitional accommodation criteria are sufficient to identify “embedded lease” scenarios.  Treasury recommends allowing agencies to make an accounting policy election, similar to FASB’s practical expedient discussed in ASC 842-10-15-37, not to separate nonlease components from lease components and instead to account for both components as a single lease unit. This accounting policy election would relieve the agencies from the burden of allocating the contract consideration between the lease and nonlease components.
3	No Comment – Is not applicable to SBA
4	HUD partially agrees with the proposed criteria. According to the OCFO-Office of Accounting and HUD’s Federal Housing Administration, the level of effort for applying the criteria has proven burdensome and time consuming. According to FASB ASC 842., a lease contract is NOT embedded in a larger service arrangement unless the contract states that fact explicitly. This could require a substantial change to the structure of contracts awarded by HUD. It could also affect the CLIN structure and the funding structure of potential contracts. HUD follows standard Govt. guidelines to award contracts. Currently, HUD has certain contracts that include multiple funds including credit reform financing funds. The question is how the funding should be applied for the embedded leases when contracts have multiple funding structures. It would not be appropriate, practical or financially prudent to award separate contracts for the same services to address the new embedded lease requirements.  However, HUD’s Office of Government National Mortgage Association agrees that the criteria for the scope of the transitional accommodation for embedded leases is reasonable. They also add that such criteria must be necessarily broad since each Agency will have different processes and systems for procurement, leasing, accounting, and resource management which would require more specific criteria at the Agency level under the umbrella of the criteria proposed above.
5	We are concerned with some of the wording of this part of the standard. The purpose of the contract is “primarily” attributable to non-lease components. The word “primarily” could be interpreted in a number of ways. Additionally, it would be nice if an example could be provided to illustrate criteria (a). (FPAC)  Determining whether an agreement’s purpose as primarily attributable to a non-lease component vs a lease component could prove challenging. Developing criteria to make that attribution would need to withstand review (e.g., IG) and be consistent among department and agencies. (FS)
6	VA believes one of the most burdensome, onerous, and costly piece of SFFAS 54 as it relates to embedded leases is the analysis of service contracts. SFFAS 54 brings heightened focus and audit scrutiny to contracts and agreements with lease and nonlease components, requiring a more comprehensive and deliberate analysis of service contracts to identify the presence of lease components. Depending on the criteria and factors an agency needs to consider when evaluating contracts and agreements to determine primary purpose, the real need for transitional accommodation is the time to perform an evaluation of service contracts and agreements to determine “primary purpose.” Criteria dependent, this analysis could require considerable review, professional judgement, and documentation to support VA’s conclusion.  We believe the language should be revised to affirm that the scope of SFFAS 54 applies to contracts or agreements with the purpose of conveying the right to control the use of property, plant, and equipment (PP&E) for a period of time in exchange for consideration. The transitional accommodation applies to all other contracts or agreements that contain lease and nonlease components.  This language would eliminate the risk that has been cited that agencies would inappropriately apply the transitional accommodation to all leases, including leases such as real estate leases, which a lessee agency clearly enters into with the intent of receiving the right to control the property but has both a lease component (shell rent) and nonlease component (operating expenses).  If the 96A language is retained, recommend the following clarifying edits to 96A. The transitional accommodation applies only to contracts or agreements that meet both of the following criteria:  a. The contracts or agreements contain nonlease component(s) and [remove phrase - may contain] lease component(s). b. The purpose of the contracts or agreements is [remove phrase – primarily] attributable to the nonlease component(s), such as service components, based on management’s assessment of the nature of the contracts or agreements and professional judgment. The [remove phrase – primary] purpose attribution to the nonlease component(s) should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgment.

**QFR 2: Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements that meet both of the following criteria: (a) the contracts or agreements contain nonlease components(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.**

**Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.**

Ref. No.	Response
7	As a transitional accommodation, we consider paragraphs 3-5 to be reasonable and sufficient to greatly reduce implementation burdens for embedded leases that are within contracts with a primary purpose being services in nature. Inclusion of the language that the determinations are to be made, “based on management’s assessment...and professional judgment” and that the primary purpose attribution “should not appear to be unreasonable” are particularly valuable to support agency flexibility in using the accommodation. We foresee a significantly reduced level of effort in applying this criteria and believe this is a reasonable approach that will still capture all material lease balances. In the future, if the transitional accommodation is made permanent, we would recommend the Board (or AAPC) provide more criteria or guidance on reasonable approaches to the management assessment process. We recommend such additional guidance for permanent changes, to support consistency across reporting entities, and address likely complexities contracts may have. Reporting entities each determining the criteria for assessing the primary purpose attribution could lead to differences and inconsistencies. We believe such additional guidance is not a necessary requirement for the proposed transitional accommodation, as it is temporary in nature, but would be helpful if a permanent accommodation is adopted.
8	<i>Comments provided in letter form.</i>
9	The Department believes that these criteria are sufficient for outlining the scope of the transitional accommodation for “embedded leases.” The potential embedded lease agreements that the Department has identified thus far have contained both a lease and non-lease component, with the primary purpose of the agreement being attributable to the non-lease component, or the service component. These lease agreements would clearly fit these criteria and would fall under the scope of the transitional amendment.
10	DHS agrees with the scope of the proposed transitional accommodation for embedded leases. In addition, DHS requests more specific guidance on how to assess whether the primary purpose of a contract or agreement is attributable to its non-lease or lease component(s).
11	I agree that the transitional accommodation should be made available as a prospective accommodation. There is a fair amount of subjective reasoning and decision making made on the part of management regarding the lease determination. Based on that, it would be prudent to have documented working papers supporting how management determined the accountability of the lease.
12	<p>The design of the proposed accommodation is well-conceived and establishes practical criteria for the scoping of embedded leases within the transitional accommodation. These criteria, while sufficient for the majority of contracts (for which the “primary purpose” is reasonably unambiguous based upon the nature of the contract and professional judgement), could be insufficient in the case of contracts with an ambiguous, not inherently known, or difficult to determine “primary purpose.”</p> <p>Additional guidance could be valuable to indicate the precise definition FASAB would ascribe to “primary purpose” or make reference to any sample contract scenarios that appear to be roughly evenly split between a lease and a service contract. FASAB may wish to consider factors such as dollar value, percentage thresholds, or original or modified intention of procurement in order to go beyond leaving the determination of a contract’s primary purpose to only its “nature and professional judgement,” as contemplated in the current accommodation proposal.</p>
13	<p>It will take considerable resources to determine the breadth and scope of all embedded leases in a large, mostly decentralized organization such as the DoD. Guidelines for scoping in embedded leases within the transitional accommodation are helpful, although the level of effort will vary based on the volume and complexity of contracts/agreements different DoD components are dealing with.</p> <p>The proposed criteria introduces an element of subjectivity by relying on management’s assessment and professional judgment to determine the primary purpose attribution to the nonlease component(s). While professional judgment is common in accounting, it may lead to challenges in consistent application and could be a source of potential disputes during audits or assessments. Additional guidance would be valuable for determining how FASAB interprets “primary purpose” (considering factors such as dollar value, percentage thresholds, or original or modified intention of procurement) to enhance understanding. Consider providing specific examples to help reporting entities apply these criteria consistently.</p> <p>Ability to create own criteria for assessment could also be an option. This will require diligent application of a well-documented process and concurrence from auditors.</p>

**QFR 2: Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements that meet both of the following criteria: (a) the contracts or agreements contain nonlease components(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.**

**Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.**

Ref. No.	Response
14	<p>DOJ generally feels that paragraphs 3-4 and paragraph 5 provide sufficient criteria for the scope of the transitional accommodation for “embedded leases.” We request that the Board consider further defining or providing criteria for entities to determine the primary purpose of a contract between lease and non-lease components to support consistent identification of lease vs. non-lease contracts or agreements across entities.</p> <p>Our current reporting for the standard is entirely manual, and different DOJ components have different procurement practices (centralized vs de-centralized). Due to these factors, the highest level of effort (LOE) would mainly be incurred before and during the first year of implementation (2024) to review contract types and assess whether the contract is primarily a lease or primarily not a lease and develop guidance for future contract monitoring. This amendment reduces the full burden of implementation for embedded leases in FY2024 as the complex calculations for allocating contract costs between leases and non-lease components, and performing right to control evaluations will be avoided for the leases categorized as primarily “non-lease” purpose and must only be performed on the primarily “lease” related contracts.</p> <p>Once the initial assessment is made, components will be required to continuously monitor new contract types to determine the appropriate categorization and reporting requirements. Additional LOE will be required during the transitional period to update/develop processes to identify embedded leases that must be reported once the transitional period ends and to coordinate with Procurement Managers to update processes to improve the identification of lease components in contracts as the contracts are executed.</p> <p>We expect there to be additional technology requirements as well to identify and report on embedded leases where they are not the primary purpose of the contract to reduce the manual nature of this reporting process. We are also still working on technical solutions for recording all leases in accordance with the standard.</p>
15	<p>Generally, agree with the information provided in paragraphs 3-4 and 5 (96A criteria), but believe the level of effort to continually review and update for these ‘embedded leases’ would be manually intensive and would not provide meaningful information to the users of the financial statements. As identified in the ED, many of these contracts or agreements are primarily for service components and are understood by the general public as such. This portrayal and various disclosure methodologies due to how an agency recognizes lease/nonlease components only serve to complicate an otherwise basic service contract or agreement generally recomputed every 5 years.</p>
16	<p>IF the alternative views noted in paragraphs A15-A26 are not implemented then:</p> <p>1) For paragraph 3, we do not agree that they should be on separate contracts. The wording is confusing – suggest using same contract, separate line items instead. The DOI uses one contract for these embedded type leases and the lease and nonlease components are usually on different lines.</p> <p>2) For paragraph 4, we agree with this sentence defining embedded leases.</p> <p>3) For paragraph 5, we agree with paragraph 96a. and the criteria.</p> <p>It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.</p>

**QFR 2: Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements that meet both of the following criteria: (a) the contracts or agreements contain nonlease components(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.**

**Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.**

Ref. No.	Response
17	<p>Expand the Transitional Amendment</p> <p>As stated in QFR 1, State agrees with the 96A criteria at a minimum, but given the level of effort still required to identify the purpose of contracts with lease and non-lease components, State is suggesting that the Board consider expanding the transitional amendment to include a delay in evaluating and reporting leases for any lease elements within service contracts not currently identified as a lease. This would allow the State Department and other agencies to focus on proper reporting for known leases (i.e., real property and personal property), for which the Federal agency is intentionally entering into a lease transaction and over the next two years (requested above to be three (3) years) to implement processes, procedures, systems, and controls to identify the full population of leases within service contracts that likely are made up of predominantly nonlease components. State’s requested clarification would give agencies more time to make these judgements and provide the relief that the Board is seeking.</p> <p>Consider the Differences between Federal Acquisitions and Contracts by Other Entities</p> <p>After discussions with State’s Acquisition organization State makes note that there are significant differences in the acquisition processes and goals between federal and other industries including public companies, private companies, and state and local governments. These differences are important for the Board to recognize as they impact how effective the accommodations are. Examples include:</p> <ul style="list-style-type: none"> <li>• Federal agencies engage in contract actions or agreements with other parties in far greater numbers than non-Federal entities.</li> <li>o State enters into approximately 50,000 service contracts domestically and overseas that could meet the criteria for evaluation as embedded leases.</li> <li>o Given the increased number of contracts to review, the initial work of identifying all contracts and determining the primary purpose of the contract is a heavy lift for Federal personnel. Paragraph 96 D does mitigate some of the lift by allowing for grouping of contracts, but agencies still must gain confidence initially around the groupings.</li> <li>• Federal contracts may seek to achieve efficiencies by procuring services across a broad scope of services in one contract. Therefore, the efforts required to confirm whether a contract includes lease and nonlease components and then to determine the primary purpose of the contract may involve an extensive level of effort and significant judgements.</li> <li>• Federal agencies have a significantly higher number of contracts with small businesses, who manage tight budgets and face challenges providing additional contract information unless they are able to quantify the price of providing the information. If the contract is able to separate lease components in the original acquisition, that would allow for bidding vendors to respond with proposals that include these associated costs rather than trying to separate costs at a later date.</li> </ul> <p>Request for Permanent Accommodation for Agreements between Agencies</p> <p>As described in our response to QFR 1, Federal agencies frequently provide services to each other, which can include services with embedded leases. The proposed transitional accommodation and proposed practical expedient discuss agreements and contracts but does not provide specific accommodations for Federal transactions. Even with the ability to report these leases as a designated lease expense, the level of effort to review these arrangements will be extensive and without benefit. State is suggesting that FASAB consider a permanent expedient to remove requirements for reporting embedded leases between agencies as lease expenses?</p> <p>Request for Relief in Assets not Used Directly by the Agency</p> <p>We suggest that FASAB issue implementation guidance specific to embedded leases to assist agencies with making consistent judgements on what does and does not constitute control and what does or does not qualify as an embedded lease.</p> <p>Additionally, State posits that there are two types of embedded leases: leases that a Federal agency controls and leases that the vendor controls. Leases that the agency controls. State would recommend, that the Board consider adjusting just the definition of an embedded lease from “the Agency’s right to control the asset” to “Agency’s control of the leased asset.”</p> <p>This amendment would allow for a distinction between assets that are used exclusively by the vendor to accomplish the contracted service and those assets also used by the agency. The rationale for this change is that if the agency purchases the service and does not use the asset, the contract should be accounted for as a service.</p> <p>This proposed addition would exclude the possibility of an agency adjusting contracting processes and policies to hide leases in other contracts to avoid reporting on the lease, while still giving relief to agencies on reporting embedded leases.</p> <p>We provide two (2) examples below that show the difference between control and right to control: [please see comment letter, p. 4-5, for examples; examples are omitted from this matrix due to length]</p>

**QFR 2: Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements that meet both of the following criteria: (a) the contracts or agreements contain nonlease components(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.**

**Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.**

Ref. No.	Response
18	<p>The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraphs 3 through 5 (96A criteria).</p> <p>However, the Department respectfully believes that the proposed transitional accommodation 96A criteria would result in complexities and burdens to a preparer interested in possibly adopting the transitional accommodation, including collecting relevant information and data to determine which transitional accommodation period would be cost-effective and appropriate. The Department believes that it may be difficult and burdensome for a preparer to evaluate and determine if a transitional accommodation can be adopted in a cost-effective manner and should or should not be adopted.</p> <p>As previously discussed in the Department’s response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26).</p>
19	We found criteria in paragraph 96A to be reasonable and readily understandable.
20	To determine if contracts or agreements meet the criteria is paragraphs 96A, agencies will need to review each contract or agreement. HHS will have to review contracts/ agreements for these criteria manually. Therefore, identifying contracts to which the transitional accommodation is applicable is itself extremely burdensome, and we feel additional time should be granted for all embedded leases, regardless of the primary purpose.
21	We encourage the board to consider removing the word “may” in the following sentence: “the contracts or agreements contain non-lease components(s) and <del>may</del> contain lease component(s).” Our assumption is that the agencies will have evaluated all individual contracts for any potential embedded leases (i.e., the agency will have evaluated if an agreement has a non-lease and lease component). Therefore, adding the word “may” assumes that the evaluation hasn’t been done, and once the evaluation has been completed, the transitional amendment would be applicable.



**QFR 3: Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.**

Ref. No.	Response
1	<p>SSA appreciates the deferral provided by the accommodation period. We agree there will be some reductions in agency implementation efforts concerning “embedded leases.” However, as noted in responses to other QFRs, researching an expansive portfolio of predominantly nonlease contracts to search for potential minor “embedded lease” activity is an exceptionally time-consuming and administratively burdensome process that imposes substantial costs in an overall tight budgetary environment where agency appropriation levels from year to year are uncertain and are not always keeping pace with inflation or unfunded mandates. Specifically, agencies must review hundreds (or thousands) of contract award actions that each could have hundreds of pages of supporting documentation to glean whether there are any contract provisions that could be interpreted as yielding an “embedded lease.”</p> <p>SSA agrees with the Alternative View presented in paragraphs A15 – A26 whereby “as a practical expedient, a reporting entity may elect to account for contracts or agreements according to their primary purpose, either lease or nonlease.” We believe the practical expedient should be made permanent. Based on our initial reviews, we have little to no “embedded lease” activity, yielding a portfolio of contract activity that is entirely, or almost entirely, nonlease. We do not believe expending the substantial cost in time and effort to search for potential “embedded lease” activity justifies the benefit of more precisely reflecting vastly insignificant potential right-to-use assets and lease liabilities. We do not believe the readers of our financial statements would use such information in their decision-making processes, nor would agency decisionmakers.</p>
2	<p>The flexibility to elect an accommodation period through September 30, 2025 is much appreciated and might allow for the allocation of remaining implementation efforts/costs across that timeframe, alleviating the immediate burden. In the event the accommodation is not considered for permanent adoption, Treasury recommends either delaying “embedded lease” accounting provisions for another year (total of three years) or applying them on a prospective basis to contracts entered into or modified after September 30, 2023. Additional time could also allow the agencies to update their contracting processes to include clauses that clearly call out the inclusion of an embedded leased asset and valuation of the asset (in comparison to the overall contract value). These changes could greatly reduce the operational burden of the agencies in locating and tracking embedded leases.</p>
3	No Comment – Is not applicable to SBA
4	<p>HUD agrees with the approach and timeline presented in 96B and 96C for the election of embedded leases. OCFO-Office of Accounting and HUD’s Federal Housing Administration states, with respect to the design of the proposed transitional accommodation, allowing reporting entities to prospectively apply the provisions of SFFAS 54, paragraph 73, to new or modified contracts or agreements meeting the paragraph 96A criteria is reasonable. Paragraph 73 states that federal entities should account for the lease and nonlease components as separate contracts or agreements. Unless the contract or agreement meets the exception in Paragraph 76, federal entities should account for those components as a single lease unit if the contract does not include the prices for the individual components or if any of those prices deemed to be unreasonable after maximizing the use of observable information.</p> <p>Furthermore, paragraph 96C provides for the lease term for a lease component modification is effective after the accommodation period for the purpose of initial recognition and measurement.</p> <p>HUD’s Office of Government National Mortgage Association also explains that this approach provides Agencies with flexibility to implement the guidance in accordance with the specific project plans and dependencies which will exist at each Agency.</p>
5	<p>No comments on this. (FPAC)</p> <p>No alternative views are suggested. Prospective application after the accommodation period appears the most practical and workable. (FS)</p>
6	<p>We agree with the provision to recognize contracts or agreements, including the lease components, as nonlease components in their entirety. We suggest adding language to clearly state that the provisions of paragraphs 96B-96C do not change measurement of Short-Term, Intragovernmental, or Right-To-Use Leases. For example, we would not want there to be any misinterpretation that the nonlease components of a Real Property Lease would need to be included with the lease components in the measurement of the lease liability and asset value.</p>

QFR 3: Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.	
Ref. No.	Response
7	<p>We believe the language in paragraphs 96B - 96C could be simplified to add clarity and potentially remove additional burden.</p> <p>In paragraph 96B, the FN12 indicates that contract modifications impacting the primary purpose attribute are an exception to use of the accommodation. We believe this exception should be contained in the body of a paragraph rather than a footnote and prescribe accounting treatment reporting entities should use when contract modifications change the primary purpose from non-lease to lease. FN12 is unclear whether reporting entities would apply requirements of SFFAS 54 paragraphs 80-86 for such modifications made during or after the accommodation period, or what other guidance may apply to modifications.</p> <p>Also in paragraph 96B, we recommend the sentence enabling entities to elect shorter accommodation periods be further simplified. Given the latitude reporting entities will have in applying the accommodation (including potential unique application for each reporting entity, as well as by groups of contracts provided in paragraph 96D), there could be significant inconsistency in reporting methods within a reporting entity, even greater potential for inconsistency across consolidated reporting entities (i.e. Department or Agency level), and most pronounced at the government-wide level. With such potential for variability by reporting entities, we suggest rewriting the third sentence of paragraph 96B as follows: “The entity may discontinue use of the transitional accommodation at any time during the accommodation period.”</p> <p>In paragraphs 96B and 96C, the exercising of options after the period of accommodation is not addressed. Since contractually, exercising options is not the same as making contract modifications, we recommend addressing this as well within these paragraphs.</p> <p>In paragraph 96C, the reference to new contracts commencing after the accommodation period is not necessary as paragraphs 96 A-E would no longer apply.</p> <p>To provide greater clarity to paragraph 96C, we suggest the following alternative language, which also incorporates FN13 and FN14 into the body of 96C:</p> <p><i>“For contracts where the transitional accommodation is used, if contract modifications are made subsequent to the accommodation period (or after the entity discontinues use of accommodation), entities should prospectively apply the provisions of SFFAS 54 paragraph 73. If the subsequent modifications create a lease component, for purposes of initial recognition and measurement, the start of the lease term for that component would be the effective date of the modification. For such modifications, 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. Alternatively, if a component of the subsequent modification meets requirements for reporting as a separate lease in accordance with SFFAS 54, paragraph 84, that component should be recognized as a new lease, while the original contract may continue to be accounted for as a non lease contract under the accommodation, without prospective application of par. 73.”</i></p> <p>As an alternative approach for contracts for which this transitional accommodation is applied, we strongly recommend eliminating the need to review modifications and the exercising of options during or after the transitional accommodation period. This would eliminate the need for paragraph 96C and FN 12 in 96B and further reduce implementation burden, as there would be no need for reporting entities to continuously monitor these contracts or agreements. As noted in the BFC, paragraph A12, these contracts or agreements are shorter-term in nature and the financial statement impact of removing 96C requirements would likely not be material.</p> <p>As discussed in our response to QFR 1, GSA supports the Board’s prompt issuance of this proposed transitional accommodation, especially given the limited amount of time remaining before SFFAS 54 becomes effective. We offer the following additional suggestions for longer-term/permanent consideration. These could be reviewed and discussed at a later time as a future accommodation.</p> <p>1. We suggest the Board revisit the practical application of some of the language in SFFAS 54 paragraph 2 that leads into paragraphs 3 and 4, especially from the perspective of embedded leases and asset control. Paragraph 2 of SFFAS 54 indicates that assets should generally be explicitly identified in contracts but allows for assets to be “implicitly specified.” For contracts with the primary purpose to provide services, financial terms are less likely to clearly distinguish the elements of payments related to underlying assets used. As an example, cloud computing service pricing rarely affixes elements specific to any particular pieces of equipment used. Considering these types of contracts as multi-component arrangements in accordance with SFFAS 54 paragraphs 72-77 is especially challenging and adds burden that is likely not warranted. If such contracts or arrangements without clear or estimable payment/pricing requirements for underlying assets were to follow the guidance of paragraph 76, with treatment of the whole contract as a lease, the impact on financial reporting could create significant unwanted distortions. Lease accounting for right to-use assets brings the higher near-term recognition of expenses and lower later-year cost recognition, most noted in periods of higher interest rates, given the treatment that a lease contract is effectively treated as an asset financing arrangement, with its front-loaded interest costs produced by the interest method and its amortization of the liability balance.</p> <p>While paragraph 4 of SFFAS 54 somewhat removes primarily service contracts from consideration as leases, the requirements of this paragraph would be further clarified if language similar to the proposed 96A and 96B were included.</p> <p>2. We recommend changes to paragraphs 76 (edits proposed below) and elimination of 77 of SFFAS 54. This would alleviate burden for reporting entities by allowing non-lease accounting for components that are unable to be separated and eliminating the need to estimate the allocation of costs between components. However, if the alternative view is adopted by the Board, we would recommend changing this to assess the primary purpose and then account for the component based on that determination.</p> <p>76. If a contract or agreement does not include prices for individual components or if any of those prices appear to be unreasonable as provided in paragraph 75, lessors and lessees should <del>use professional judgment to determine their best estimate for allocating the contract or agreement price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in a contract or agreement, a federal entity should</del> account for those components as a single <u>non-lease</u> unit.</p> <p>With these changes to paragraph 76 of SFFAS 54, paragraph 77 is no longer needed.</p>



**QFR 3: Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.**

Ref. No.	Response
8	<i>Comments provided in letter form.</i>
9	The Department supports the proposed transitional accommodation provisions under paragraphs 96B-96C. We believe these will reduce the time it takes the Department to implement SFFAS 54, as we continue to spend a large amount of time focused on this subject, analyzing embedded leases and trying to distinguish lease components from non-lease components in these contracts.
10	DHS agrees with the alternative view proposed by Mr. McNamee at the June board meeting. See our response to QFR 7 for additional feedback on this alternative view.
11	I agree with the phase in period as many agencies had issue with implementing this October.
12	The transitional accommodation as proposed will indeed achieve the goal of reducing implementation time for the new standard. The design, specifically the applicability to contracts with a “primary purpose attributable to the nonlease component(s),” is appropriate and, in practice, is a practical guideline for identifying contracts to be excluded from assessment during the accommodation period. Within our agency, contracts whose purpose is primarily for the conveyance of services are processed and tracked via a distinct set of procedures and systems from those whose purpose is primarily for the conveyance of items of PP&E. As part of the current implementation/adoption of the new standard, extensive accounting procedures have been performed to verify the fidelity of this bifurcation. As a result, this population of mainly-service contracts does not need to be assessed during the accommodation period (thus eliminating much of the Board’s concern about the “need to assess the eligibility of contracts or agreements for the transitional accommodation” in paragraph A11), and the expected level of effort for applying the accommodation is low.
13	<p>While DoD components generally agree with the proposed transitional accommodation which allows entities to refrain from reporting certain embedded leases during the defined accommodation period, we suspect that this might create a tendency to account for all affected contracts as nonlease contracts/agreements.</p> <p>Some components expressed that further guidance would be helpful to address if a lease footnote disclosure will be needed around the amount that was previously considered a nonlease, and disclosure around the amount that will be considered a lease if there is a modification to the lease during the accommodation period.</p>
14	DOJ requests clarification on the “modification” language of paragraphs 86B and 96C. We read the paragraphs to state that contracts assessed as primarily non-lease do not need to be reported during the transitional accommodation period UNLESS a modification changes the primary purpose of the contract to a lease contract. In addition, after the transitional accommodation period has ended, existing contracts will not be assessed for reporting unless modified. Please consider adding clarification on the types of modifications that would result in reporting after the transitional accommodation period has passed. SFFAS 54 parage 80 currently states, “Examples of amendments to lease contracts or agreements include changing the contract or agreement price, lengthening or shortening the lease term, and adding or removing an underlying asset. An amendment should be considered a lease modification unless the lessee’s right to use the underlying asset decreases, in which case the amendment should be considered a partial or full lease termination. <b>By contrast, exercising an existing option, such as an option to extend or terminate the lease as discussed in paragraphs 15-19, is subject to the guidance for remeasurement</b> ” Modifications are often executed to add funding to new option periods that were previously unfunded or to process administrative changes to update certain non-financial or SOW attributes on a contract (such as a modification to change the COR). These types of modifications would not change the lease/non-lease components initially assessed and should not result in the entity being required to report a new lease asset/liability.
15	Although the transitional accommodation provides a temporary reprieve, believe that those contracts or agreements with predominantly nonlease components and determined to be accounted for as such should be permanently excluded from SFFAS 54 for both lessors and lessees. The level of effort to continually review and update any disclosure information for these ‘embedded leases’ would be manually intensive and would not provide meaningful information to the users of the financial statements. The exclusion would continue as long as modifications were made only to the nonlease component. This aligns to the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks in paragraphs A17-A22.
16	<p>IF the alternative views noted in paragraphs A15-A26 are not implemented then:</p> <p>1) The design of these proposals – we believe that paragraphs 96B &amp; 96C provide enough information for users to properly assess their portfolio for compliance with this transitional accommodation.</p> <p>2) The expected effectiveness of the transitional accommodation – we believe the transitional accommodation will be a great tool to leverage for users with regards to embedded leases.</p> <p>3) The expected level of effort for applying the accommodation – we believe the effort for applying the accommodation will be offset by the extra time this gives us to bifurcate the embedded leases as the accommodation expires. This will allow the DOI to identify and assess multiple component leases.</p> <p>It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.</p>

**QFR 3: Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.**

Ref. No.	Response
17	<p><b>Agreement with Transitional Amendment</b> State agrees with the accommodation period with the request above to provide one (1) additional year and the prospective application of paragraph 96C, including contract modifications not affecting the primary purpose of contract in place as of election (FN 12). The delay and the prospective approach allow agencies the ability to update acquisition processes, to identify and track leases within primarily nonlease contracts, and clauses that affect the SFFAS 54 calculations. Since the federal contracting process can take over a year, the two-year delay allows State time to implement these needed changes into the process.</p> <p><b>Clarify the Intent of “Modifications of Leases” under the Transitional Amendment</b> Paragraph 96B states: “unless they are subsequently modified after the end of the accommodation period.” State requests the Board clarify contract modifications, since Federal service contracts are typically modified each year to renew an option period for the same services or other administrative purposes not impacting the lease and non lease components or the purpose of the contract. State suggests that FASAB clarify that Footnote 12 applies to modifications after 9/30/25 (if the agency applied the full two year extension) and contracts would only be evaluated for lease and nonlease components and associated reporting if the contract was new or the contract modification changed the contract scope?</p> <p><b>Clarify Disclosure Requirements for Leases under the Transitional Amendment</b> Paragraphs 54 and 67 of SFFAS 54 reference disclosure requirements for leases. State assumes the intention of the Board is that if leases do not require reporting, they do not require disclosures per paragraphs 54 and 67. State suggests that language be adjusted to reflect that these transitional amendments also apply to the SFFAS 54 requirements for disclosures in paragraphs 54 and 67 to specifically confirm that if agencies elect to take the transitional amendments, they are not required to disclose any information about these contracts except the disclosure requirements proposed in this Exposure Draft.</p> <p><b>Clarification of Understanding around Service Contracts and Traditional Lease Agreements</b> A.12 states that “The Board expects that most contracts meeting paragraph 96A criteria will have lease terms that are comparatively shorter in relation to contracts with a purpose primarily attributable to lease components.” State disagrees with this statement. To identify lease and nonlease components, agencies must evaluate contract scope in addition to contract terms. Federal contracts may have a wide variety of scope elements and the level of detail provided to determine the lease elements can require an extensive level of effort to determine, especially for embedded equipment. In addition, assets embedded within these contracts may not be written into scope or contract terms and would require data calls or engagement with vendors (i.e., a cleaning contract that uses specialized assets/machines to polish floors may be brought in by the vendors, stored on site, and provide benefit only to the agency, but may not be specified in the contract language that is buying cleaning services). This would require a significantly higher level of effort than real estate lease documents (follow a standard structure like a model lease, include a deviation approval process and follow standard industry terms).</p> <p><b>Engagement with the Acquisition Community</b> As stated in QFR 1, State recognizes that adding language to contracts and agreements with other parties to require segregating costs for lease and nonlease components will make a significant impact on future reporting of lease components. We recommend that the FASAB Staff and/or Board engage with the Federal acquisition community, including OMB’s Office of Federal Procurement Policy to understand the lead times and level of effort needed across Federal agencies to identify, quantify and apply language to contracts for contracts with lease and nonlease components.</p>
18	<p>The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96B and 96C criteria).</p> <p>However, the Department respectfully believes that the proposed transitional accommodation 96B and 96C criteria may result in complexities and burdens to a preparer interested in possibly adopting the transitional accommodation, including collecting relevant information and data to determine if the transitional accommodation can be adopted in a cost-effective manner and for which accommodation period(s) and if the transactional accommodation should or should not be adopted. The Department believes that it may be difficult and burdensome for a preparer to evaluate and determine if a transitional accommodation can be adopted in a cost-effective manner and should or should not be adopted.</p> <p>Further, the Department respectfully believes that the proposed transitional accommodation 96C criteria, after adoption by a preparer, would result in complexities and burdens to a preparer regarding financial accounting for subsequent modifications to contracts/agreements that fall under the transitional accommodation.</p> <p>As previously discussed in the Department’s response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26).</p>
19	<p>We agree that the proposed provisions in paragraph 96B-96C are reasonable. With agencies at different stages of implementation and with different populations of contracts that may be subject to the accommodation, the flexibility allowed by the accommodation period will allow for a systematic staged implementation. Prospective implementation of paragraph 73 for new or modified “embedded leases” will also provide agencies with additional time to renegotiate service contracts/agreements, where possible, with clauses that minimize the accounting and reporting burden.</p> <p>As intragovernmental leases are excluded from SFFAS 54, this transitional accommodation will not impact intergovernmental eliminations.</p>

**QFR 3: Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.**

Ref. No.	Response
20	<p>Agree if the primary purpose of the agreement is nonlease then it should be classified as such and no need to break out the lease portion. This classification should be applied going forward regardless of the extension for embedded leases, which is consistent with the alternative view.</p> <p>Footnote 12 requires agencies to monitor modifications to all contracts to determine if the primary purpose changed. This does not seem to provide relief to agencies but seems more burdensome to have to continually monitor each modification to all contracts.</p>
21	<p>We recommend the board consider removing “or those existing as October 1, 2023” as the date is already specified in the second sentence of paragraph 96B. Repeating the date again may lead to confusion.</p>

**QFR 4: Proposed paragraph 96B provides that reporting entities may elect an accommodation period for up to two years prior to the prospective application requirements described in paragraph 96C. Please also refer to paragraphs A1-A13 of the basis for conclusions, including paragraph A10, which discusses the Board’s intent that this proposal would provide additional time to prepare for prospective implementation of paragraph 73 for new or modified “embedded leases.”**

**Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent. Please describe the reasons for your views and relevant considerations to facilitate the Board’s analysis of your comments.**

Ref. No.	Response
1	SSA agrees with the Alternative View presented in paragraphs A15 – A26 whereby “as a practical expedient, a reporting entity may elect to account for contracts or agreements according to their primary purpose, either lease or nonlease.” We believe the practical expedient should be made permanent. Based on our initial reviews, we have little to no “embedded lease” activity, yielding a portfolio of contract activity that is entirely, or almost entirely, nonlease. We do not believe expending the substantial cost in time and effort to search for potential “embedded lease” activity justifies the benefit of more precisely reflecting vastly insignificant potential right-to-use assets and lease liabilities. We do not believe the readers of our financial statements would use such information in their decision-making processes, nor would agency decisionmakers.
2	Treasury believes the accommodation should be made a permanent option. Treasury has found the agreements that contain embedded leases identified thus far to be immaterial to both the contracts containing them as well as to the agency overall. Therefore, it appears that the level of effort to extract/obtain the necessary information to perform a valuation and subsequent monitoring/reporting efforts greatly exceeds the added value to the financial statement’s reader.
3	No Comment – Is not applicable to SBA
4	HUD generally agrees that the length appears appropriate. However, according to OCFO-Office of Accounting and HUD’s Federal Housing Administration, it depends if the Board can address all the potential contractual and accounting issues identified by the Agencies.  According to HUD’s Office of Government National Mortgage Association, as discussed above, the proposed timeline appears reasonable to allow Agencies to adopt and implement the guidance, including time necessary to define populations, perform assessments of agreements, design and modify systems and processes and design reporting and disclosures.
5	This is the most difficult part of the implementation of SFFAS 54. Developing the skills to identify these lease elements of contracts is a challenge that every agency will have to overcome. (FPAC)  The proposed two-year accommodation period appears sufficient to evaluate the variety of procurement activities that may have possible lease/non-lease components. (FS)
6	VA believes the proposal should be revised to become a practical expedient. VA agrees with views expressed by Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks in that “the transitional accommodation the Board proposes would provide some relief from the challenges inherent in implementing paragraph 73 of SFFAS 54, which addresses accounting by lessors and lessees for contracts that contain both a lease and a nonlease component. Such relief would be limited, however, in that it would be temporary and would apply only to contracts or agreements whose purpose is primarily attributable to their nonlease components. These members believe that making available broader and permanent relief from the requirements of paragraph 73 would substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases.”
7	We recommend the Board consider changing the accommodation period to 4 years, to provide agencies with additional time to apply more resources and perform analysis necessary to fully apply SFFAS 54 to embedded leases. Most agencies will likely need at least one year of additional resources dedicated to the implementation of traditional leases required by SFFAS 54 and ensure proper reporting. It is expected to require significant additional resources to adequately delve into the analysis of embedded leases and develop processes and procedures to unbundle contracts. Further, accounting for contracts with embedded leases may require additional changes to financial management or acquisition systems, beyond those used for lease contracts. Any further significant systems changes would likely cause delays for agencies to comply with SFFAS 54 for embedded leases after the accommodation period.  As noted in our response to QRF 2, if in the future, the Board considers significantly extending or making the accommodation period permanent, we believe such a change should be accompanied by further guidance for entities to apply in determining the primary purpose of contracts. We can envision various contractual scenarios that add complexities to making the determinations and believe sufficient guidance (such as from the AAPC) should be provided to promote consistency among Federal reporting entities. Permanent accommodation likely requires amendment to both the multi-component contracts section (paragraphs 72-77) of SFFAS 54 as well as the contract modification section (paragraphs 80-86).
8	<i>Comments provided in letter form.</i>
9	The Department supports the length of the proposed accommodation period, as we believe it allows us sufficient time to both focus on other lease agreements for implementation in FY 2024 and conduct further analysis on agreements that might contain lease and non-lease components.
10	DHS agrees with the proposed two-year deferment. Based on a recent survey with DHS components, it was determined that it would take approximately 8,500-man hours at a cost over \$400,000 to review all DHS contracts for embedded leases. A two-year deferment would allow more efficient allocation of staff resources and significantly reduce our financial statement audit risk. The additional time will allow DHS to fully implement SFFAS 54 for our right-to-use and intra-governmental lease population prior to shifting resources to searching for and reporting on embedded leases.



**QFR 4: Proposed paragraph 96B provides that reporting entities may elect an accommodation period for up to two years prior to the prospective application requirements described in paragraph 96C. Please also refer to paragraphs A1-A13 of the basis for conclusions, including paragraph A10, which discusses the Board's intent that this proposal would provide additional time to prepare for prospective implementation of paragraph 73 for new or modified "embedded leases."**

**Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent. Please describe the reasons for your views and relevant considerations to facilitate the Board's analysis of your comments.**

Ref. No.	Response
11	I believe the accommodation period is reasonable.
12	<p>The length of the proposed accommodation period is sufficient to allow time for not only the implementation activities associated with embedded leases (and the Board is correct in determining that these activities [assessing control, allocating contract price, etc.] are relatively time-consuming in comparison with contracts with a primary purpose attributable to lease components) but also for the numerous operational, accounting, and reporting changes necessitated by the remainder of the guidance (that pertinent to leases other than embedded). The accommodation period, whether it be one or two additional years as determined by each adopting agency, will allow for 1) the training and alignment of the various groups within an agency that must collaborate in order to capture and account for embedded leases, 2) the analysis/assessment of the types of primarily-nonlease contracts into which a given agency typically enters, and 3) the institutionalization of procedures and controls for identifying and capturing these contracts as they are entered into.</p> <p>Please see the response to QFR 7 below for feedback related to views on making the accommodation permanent.</p>
13	While some of the smaller DoD components find the length and sufficiency of the proposed accommodation acceptable, the larger DoD components (such as a military service) do not believe that the accommodation period is long enough. This is especially true for the components with a disclaimer audit opinion, as they work through much larger reporting challenges on their way to an audit opinion. For e.g., for those who are starting their review of lease agreements/contracts from scratch in a contracting system feeding into an accounting and reporting system, we doubt a large entity would be able to comply in two years.
14	We agree that the proposed transitional accommodation would help DOJ implement the standard by allowing for resources to be focused on primarily lease contracts in FY2024, and to allow for further review of embedded leases before reporting in FY2026. This period will allow the Department more time to develop software solutions for all reporting under the standard. Having said that, we do however concur with Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks' opinion that "The transitional accommodation the Board proposed would provide some relief from the challenges inherent in implementing paragraph 73 of SFFAS 54...Such relief would be limited, however, in that it would be temporary and would apply only to contracts or agreements whose purpose is primarily attributable to their nonlease components...making available broader and permanent relief from the requirements of paragraph 73 would substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases." Therefore, we strongly support making the accommodation permanent. Please see QFR7 for further discussion.
15	Generally, agree with the proposed transitional amendment, but do not agree that a transitional period will provide meaningful or less costly relief. Agree with the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks noted in paragraph A16 (and supported in following paragraphs) that making the relief from the requirements of paragraph 73 permanent would "substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases."
16	<p>IF the alternative views noted in paragraphs A15-A26 are not implemented then:</p> <p>We believe that making the accommodation permanent would be a better route. If the primary purpose of the contract is for services, rarely will the lease component be of significance to change a user of the periodic financial statements to draw a different conclusion on the agencies financial position. If during a review, we believe the agency would be able to determine if the lease component is actually material to the financial statements and then adjust to account for that portion of the service contract in accordance with SFFAS 54.</p> <p>It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.</p>
17	<p>Request for Additional Time to take the Transitional Amendment</p> <p>State requests one additional year and agrees with prospective application including contract modifications not affecting the primary purpose of contract in place as of election (FN 12).</p> <p>State does consider the alternative approach, which in essence allows for a permanent expedient around embedded leases as compelling.</p> <p>Intragovernmental / Reimbursable Agreements</p> <p>The proposed transitional accommodation and proposed practical expedient discuss agreements and contracts but does not provide specific accommodations for Federal transactions. State would recommend a permanent accommodation for these types of agreements.</p>

**QFR 4: Proposed paragraph 96B provides that reporting entities may elect an accommodation period for up to two years prior to the prospective application requirements described in paragraph 96C. Please also refer to paragraphs A1-A13 of the basis for conclusions, including paragraph A10, which discusses the Board’s intent that this proposal would provide additional time to prepare for prospective implementation of paragraph 73 for new or modified “embedded leases.”**

**Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent. Please describe the reasons for your views and relevant considerations to facilitate the Board’s analysis of your comments.**

Ref. No.	Response
18	<p>The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96B criteria).</p> <p>However, the Department respectfully believes that the proposed transitional accommodation 96B criteria may result in complexities and burdens to a preparer interested in possibly adopting the transitional accommodation, including collecting relevant information and data to determine if the transitional accommodation can be adopted in a cost-effective manner and for which accommodation period(s) and if the transactional accommodation should or should not be adopted. The Department believes that it may be difficult and burdensome for a preparer to evaluate and determine if a transitional accommodation can be adopted in a cost-effective manner and should or should not be adopted.</p> <p>As previously discussed in the Department’s response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26).</p>
19	<p>We agree with the proposed accommodation period. The proposed period of 2 years is of sufficient length to allow agencies with implementation challenges to focus implementation efforts first on known lease contracts (that is, “part B” of the pie as illustrated in Appendix B). We also believe that a two-year period is of sufficient length for agencies to assess their service contracts (that meet the criteria in paragraph 96A) and determine the appropriate accounting treatment for the lease and non-lease components, as applicable (that is, “part C” of the pie as illustrated in Appendix B). As mentioned in paragraph A23, processes and data to identify contracts with lease components should have already been in place. However, in our experience, many agencies had disregarded the prior FASAB guidance that incorporated by reference the standards set by another standard-setting body (that is, FASB) and are now beginning to perform this analysis. In our assessment, many agencies still need to perform a significant amount of work to become compliant. Our group believes that agencies need a firm, near-term date that they can work towards and use to plan accounting efforts and this exposure draft accomplishes this goal.</p>
20	<p>We are in favor of the alternative view and recommend the accommodation be made permanent. If the primary purpose of the contract is nonlease, then account for it accordingly. If primary purpose of the contract is a lease, then account accordingly as a lease.</p>
21	<p>We encourage the board to anticipate that agencies will require an accommodation period of up to four years to adequately prepare for the implementation of paragraph 73. Based on our current knowledge of the industry, it appears that 30%-40% of agencies will be fully prepared to implement the guidance on embedded leases. The remaining agencies will be occupied with implementing the new guidance provided by SFFAS 54. Consequently, agencies will prioritize implementing SFFAS 54 before addressing embedded leases.</p>

**QFR 5: Proposed paragraph 96D provides that reporting entities may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.**

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

Ref. No.	Response
1	SSA appreciates the accommodation. As we continued our preparations this year to implement SFFAS 54, we conducted a thorough review of larger-dollar service contracts to identify ways to best identify potential “embedded leases” (as there was not a management intent to lease assets under these contracts). This was an administratively burdensome and time-consuming process that imposed substantial costs, as it involved re-reviewing hundreds of contract award actions, with each award action containing up to several hundred pages of supporting documents. Therefore, having the ability to group reasonably similar contracts when applying the provisions should yield a reduction in these burdens and costs
2	Treasury agrees with and appreciates the provided flexibility. Permitting reporting entities to apply the accommodation provision, and elect different accommodation periods, for similar groups will significantly alleviate the level of effort of having to review every single contract/modification. Costs saving and implementation burden would be minimized. This in turn allows more time for reporting entities to focus/prioritize the development of future methodologies for the identification, valuation, and reporting of “embedded leases” after the accommodation period expires, assuming the transitional accommodation is not made permanent.
3	No Comment – Is not applicable to SBA
4	HUD agrees with the proposed criteria. According to the OCFO-Office of Accounting and HUD’s Federal Housing Administration, the proposed practical expedient approach requiring reporting entities to apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature, as well as, to select different accommodation periods under paragraph 96B for different groupings of contracts or agreements will mitigate the reporting burden of remeasuring lease liabilities.  HUD’s Office of Government National Mortgage Association also adds that applying the transitional accommodation to groups of contracts or agreements, that are reasonably similar in nature, would reduce the level of effort for the review of contract populations and allows for more consistent procedures and policies to be designed. The phased approach also provides Agencies with flexibility to implement over time in a managed process more likely to be successful.
5	We agree with this proposal. (FPAC)  Flexibility in selecting different accommodation periods for different contact groupings is a practical choice. It provides room to evaluate the variety of PP&E agreements in support of operations. (FS)
6	VA agrees allowing reporting entities to apply the provisions of 96A-96C to apply groups of contracts or agreements instead of applying the provisions of 96A-96C on a contract by contract basis, but VA does not agree with the provision providing reporting entities to apply different accommodation periods under paragraph 96B. VA agrees with proposed paragraph 96E regarding the transitional accommodation disclosure and would not want the disclosure requirement expanded, which seems necessary when allowing different accommodation periods.
7	We strongly support the provision for reporting entities to group contracts or agreements that are reasonably similar in nature. This will greatly reduce burden by allowing management to assess the nature of a group of contracts or agreements rather than assessing each contract or agreement individually.  As noted in our response to QFR 2, if the transitional accommodation is made permanent, we would recommend the Board (or AAPC) provide more criteria or guidance on determining when contracts or agreements are “reasonably similar in nature”. Additional guidance would promote consistency among reporting entities. We believe such additional guidance is not a necessary requirement for the proposed transitional accommodation, as it is temporary in nature, but would be helpful if a permanent accommodation is adopted.
8	<i>Comments provided in letter form.</i>
9	The Department supports the proposed criteria, with the belief that “reasonably similar in nature” is sufficient for grouping contracts, considering the target contract population’s main purpose is attributable to non-lease components, or service components.
10	DHS supports applying the provisions to groups of contracts or agreements that are reasonably similar in nature. Allowing this provision will streamline contract identification and the assessment process. DHS would report groups of contracts or agreements that are similar in nature through the end of the accommodation period.
11	As described in QFR 2 above, with leaving lease reasoning up to the entity, I would recommend the entity appropriately document its reasoning in the entity’s working papers so it can intelligently describe to the auditors how the decisions were made and also inform future entity staff and management how and why the lease was set up the way it was.
12	The guidance in the proposed paragraph 96D would grant valuable additional flexibility to agencies in implementing the transitional accommodation by allowing for an even more phased approach to adopting and implementing the new lease standard.
13	DoD components agree with the option to group reasonably similar contracts/agreements for the sake of efficiency. Some components have suggested that examples of “reasonably similar” contracts be provided to add clarity, such as which attributes (vendor, contract length, contract terms, etc.) would have to align to be considered “reasonably similar”.



**QFR 5: Proposed paragraph 96D provides that reporting entities may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.**

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

Ref. No.	Response
14	We agree with this proposal. We would also like the Board to consider incorporating the option to select varying accommodation periods for different categories of contracts or agreements into paragraph 96B.
15	Generally, agree with the proposed provisions in paragraphs 96A-96C. However, believe that the provision should only apply to those contracts or agreements that are predominantly for a lease component. Contracts or agreements that are predominantly for a nonlease component should be excluded.
16	<p>IF the alternative views noted in paragraphs A15-A26 are not implemented then:</p> <p>We like the flexibility the accommodation provides with regards to paragraph 96D. As stated, this will allow entities a reasonable amount discretion for service contracts that contain a lease component as outlined in 96A-96C.</p> <p>It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.</p>
17	<p>Agreement with Transitional Amendment State agrees with the 96D criteria at a minimum but would ask the Board to consider expanding the delay to include all contracts not currently identified as a lease. This would allow the State and other agencies to focus on proper reporting for known leases (i.e., real property and personal property), for which the Federal agency is intentionally entering into a lease transaction and over the time allowed in the transitional amendment to implement processes, procedures, systems, and controls to identify the full population of leases within contracts with predominantly nonlease components.</p> <p>Transitional Amendment Level of Effort If the Board chooses to consider a permanent expedient (as described in the alternate opinion), State would recommend including similar wording from paragraph 96D. This paragraph does not allow much immediate relief but would allow relief in a permanent or long-term manner.</p> <p>The reason this paragraph does not allow for immediate relief is federal agencies will first have to review the contract populations, determine the primary purpose, categorize the contracts by nature, and finally determine if the nature of the arrangement correlates to the primary purpose.</p> <p>Once in place, agencies can create procedures to confirm the accuracy each year and correctly identify and account for any outliers.</p>
18	<p>The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96D criteria) as a means to provide preparers with appropriate flexibility as to groups of contracts/agreements that are similar in nature.</p> <p>As previously discussed in the Department's response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26).</p>
19	We agree with this proposed criteria, as it allows for proper project management and control. Grouping similar contracts based on judgment seems to be the only practical means of applying the accommodation and drafting the related note disclosures, so it is particularly helpful that this provision is called out and is clearly stated.
20	As stated previously, HHS will have to review contracts/agreements individually to evaluate for the criteria to apply the transitional accommodation. Grouping contracts will add another layer of analysis, therefore, HHS does not see the value of grouping contracts.
21	RMA generally agrees with the proposed provisions of the paragraph.

**QFR 6: Proposed paragraph 96E provides that reporting entities electing the transitional accommodation would disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure would not need to be repeated during subsequent reporting periods.**

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

Ref. No.	Response
1	SSA appreciates the accommodation. However, we do not believe such a disclosure is necessary. Since this proposed standard, if it is adopted, becomes GAAP, financial statement readers should have an understanding that preparers' financial statements may or may not contain "embedded leases." SSA's potential "embedded lease" activity is neither material nor significant. Therefore, we do not believe there is a critical need in the next two to three years for this disclosure.
2	Treasury agrees with the proposed disclosure requirements for reporting entities electing the transitional accommodation as it does not appear to create an undue burden.
3	No Comment – Is not applicable to SBA
4	<p>HUD agrees with the proposed disclosure requirement. According to the OCFO-Office of Accounting and HUD's Federal Housing Administration, the proposed practical expedient approach will mitigate the reporting burden of remeasuring lease liabilities.</p> <p>HUD's Office of Government National Mortgage Association also supports the proposed disclosure requirements to disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period for comparative reporting. This disclosure would provide financial statement users with useful information in understanding the implementation approach and in understanding differences in comparability between Agency Financial Reports.</p>
5	<p>We agree with this proposal. (FPAC)</p> <p>The disclosure requirement appears acceptable. (FS)</p>
6	VA agrees with proposed paragraph 96E.
7	<p>We support the disclosure requirement but would recommend a minor change to the wording to avoid confusion. The way it is currently written, it could be interpreted that a reporting entity only needs to disclose the election of the transitional accommodation in FY24 and one year beyond; however, if the reporting entity intends to continue using the transitional accommodation throughout its period of availability, we believe the disclosure should be repeated each year that the reporting entity continues to use the accommodation and one year thereafter. We believe that is the intent of paragraph 96E now, but we think that a slight change to the wording would improve understanding. We suggest the edit below for consideration.</p> <p>96E. A reporting entity electing the above transitional accommodation should disclose <del>the use or the discontinuance of use election</del> of the transitional accommodation during <del>the all</del> reporting period(s) <u>presented in the financial statements covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure need not be repeated during subsequent reporting periods.</u></p> <p>Also, we would suggest that the disclosure requirement include the nature of the portfolio of contracts or agreements for which the transitional accommodation was used or discontinued and for what portion of the fiscal year the election was in effect, if discontinued during a fiscal year.</p>
8	<i>Comments provided in letter form.</i>
9	The Department supports this proposed requirement to disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. We believe this is sufficient, as including the disclosure more than one reporting period following the accommodation period would not be necessary or relevant, considering the time elapsed since the termination of the accommodation period.
10	DHS agrees with the requirement to disclose the election of the transitional accommodation. DHS would disclose the election of the transitional accommodation through FY 2027 reporting. DHS also requests examples based on different accommodation selections, so that our disclosures meet the intent of proposed paragraph 96E.
11	My feeling on disclosure is that the notes should sufficiently clarify the fact that a transitional accommodation was elected and the proposed date of when the implementation of the lease change is anticipated per SFFAS #54. I would want to see that statement in the notes until full implementation is made.
12	<p>The proposed disclosure requirement is appropriate and uncomplicated given the removal of the previously proposed secondary disclosure data point:</p> <ul style="list-style-type: none"> <li>• Section 96D.b. of FASAB memo dated May 18, 2023, that would require reporting entities to disclose the nature of any significant contracts and agreements (or portfolio thereof) for which the transitional accommodation was elected.</li> </ul> <p>The inclusion of this data point within the disclosure requirement could potentially have been burdensome on agencies, as was discussed during the 5.25.23 meeting of the Board, by requiring a complete contract assessment of the potential embedded lease population in order to enact the accommodation. This could potentially have eliminated any benefit provided by the accommodation.</p> <p>A clarifying point that might be added is specification of whether either of the following should be disclosed: 1) an agency's selected ultimate effective date for the embedded lease guidance, or 2) the period during which the accommodation will be utilized.</p>

**QFR 6: Proposed paragraph 96E provides that reporting entities electing the transitional accommodation would disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure would not need to be repeated during subsequent reporting periods.**

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

Ref. No.	Response
13	DoD components agree with the proposed disclosure requirements, although we are concerned that independent auditors might question a choice to not disclose annually.
14	Please consider amending paragraph 54 to clarify that embedded leases meeting the criteria outlined in paragraph 96A do not need to be disclosed as part of the Component Reporting Entity Disclosure Requirements for lease activities other than short-term leases, contracts or agreements that transfer ownership, and intragovernmental leases. Consider including this prescribed disclosure notice within OMB's A-136 reporting requirements and remove these requirements from SFFAS 54.
15	Generally, agree with the transitional accommodation and no need to repeat during subsequent reporting periods. However, believe that those contracts or agreements with predominantly nonlease components should be permanently excluded.
16	IF the alternative views noted in paragraphs A15-A26 are not implemented then:  We agree, however, we would like to see what that disclosure would entail from OMB. If the disclosure is text in nature about the entity selecting the disclosure and high-level description of the accommodation, and not overly burdensome.  It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.
17	Agreement with Transitional Amendment State agrees with proposed paragraph 96 E, but as stated in our response to QFR 3 suggests this paragraph be expanded to include discussion around other SFFAS 54 required disclosures.  Transitional Amendment Level of Effort State requests the disclosure the Board expand this paragraph, or paragraph 96.B, to reflect that these transitional amendments also apply to disclosures. Paragraphs 54 and 67 of SFFAS 54 reference disclosure requirements for leases. State assumes the intention of the Board is that if leases do not require reporting, they do not require disclosures.
18	The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96E criteria) and is reasonable and appropriate without undue burden to preparers.  As previously discussed in the Department's response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26).
19	We agree with the proposed disclosure requirements. Disclosure of the election and period of accommodation is a necessary disclosure of accounting policy. Furthermore, disclosure in the period immediately following the accommodation period is needed to explain the change in accounting for that reporting period.
20	As stated above, HHS is in favor of the alternative view. If the transitional accommodation is the final determination of the Board, we recommend standard language for this disclosure to be made available for agency use, similar to what is provided for classified activities.
21	RMA generally agrees with the proposed disclosure requirements. RMA requests the board to consider adding further clarification with the addition of a paragraph in the appendix regarding the time when the disclosure is no longer required.

**QFR 7: Four Board members provided an alternative view, which is documented under the basis for conclusions (appendix A), paragraphs A15-A26. Please refer to these paragraphs to review the alternative view as presented.**

**Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.**

Ref. No.	Response
1	Overall, SSA agrees with the Alternative View presented in paragraphs A15 – A26 whereby “as a practical expedient, a reporting entity may elect to account for contracts or agreements according to their primary purpose, either lease or nonlease.” We believe the practical expedient should be made permanent. Based on our initial reviews, we have little to no “embedded lease” activity, yielding a portfolio of contract activity that is currently entirely nonlease. We do not believe expending the substantial costs in time and effort to search for potential “embedded lease” activity justifies the benefit of more precisely reflecting vastly insignificant potential right-to-use assets and lease liabilities. We do not believe the readers of our financial statements would use such information in their decision-making processes, nor would agency decision-makers.
2	Treasury fully agrees with the alternative view/practical expedient proposed by Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks. Treasury has found the agreements that contain embedded leases identified thus far to be immaterial to both the contracts containing them as well as to the agency overall. Therefore, it appears that the level of effort to extract/obtain the necessary information to perform a valuation and subsequent monitoring/reporting efforts greatly exceeds the added value to the financial statement’s reader. In Treasury’s opinion, the level of effort to support SFFAS 54 requirements after the accommodation period has expired will be excessive and will most likely not be justified by the benefit of more precise reporting as the standard intends.
3	No Comment – Is not applicable to SBA
4	HUD partially agrees with the proposed alternative view. According to the OCFO-Office of Accounting and HUD’s Federal Housing Administration, Appendix A, paragraph A25, the Board members acknowledge that applying paragraph A21.a, would result in reporting lease assets and liabilities higher than would have been reported under paragraph 73 of SFFAS 54, and applying paragraph A21.b would result in reporting lower amounts. However, the application of these two practical expedient provisions would offset each other and that the net effect would likely be immaterial to reporting entities’ Balance Sheets.  According to HUD’s Office of Government National Mortgage Association, the four Board members, Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks, all had strong alternative views for the board to consider, particularly their viewpoint in A16 which suggest a more permanent relief, as the current relief is only temporary and would apply only to contracts or agreements whose purpose is primarily attributable to their nonlease components. While HUD’s Office of Government National Mortgage Association understands the concerns raised, they agree with a permanent relief to agree the FASAB treatment with FASB’s and to reduce SFFAS 54 lease standard implementation cost.
5	We agree that this practical expedient could reduce the workload associated with SFFAS-54. The question that comes to mind is the materiality of embedded leases. If this amount is small relative to the lease landscape, this would not materially impact the reporting of leases. However, the time and effort to come to that determination may be a huge draw on the organization resources with no resulting benefit to the financial reporting process. (FPAC)  The alternative view that offers a practical expedient to account for agreements based on its “primarily attributable” lease or non-lease characteristic appears reasonable. Separating agreements introduces more subjectivity, possible less precision, and greater effort. (FS)
6	VA strongly agrees with the alternate view expressed by Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks. VA requests that language added to the alternate view that clearly states that the provisions of paragraphs 96B-96C do not change measurement of Short-Term, Intragovernmental, or Right-To-Use Leases. For example, we would not want there to be any misinterpretation that the nonlease components of a Real Property Lease would need to be included with the lease components in the measurement of the lease liability and asset value.
7	We disagree with the alternative view as presented, particularly the impacts of paragraph A21.a. We appreciate that the alternative view is looking for a permanent accommodation and believe there are other avenues that could be explored to achieve that. We would prefer additional data analysis to be completed before a permanent accommodation is approved in order to understand the financial impacts and materiality of different approaches for consideration.  We have the most concern with the proposal in A17 and A21.a for reporting entities with a material lease portfolio. For GSA, bundling the non-lease components with the lease components for our real property leases would greatly increase the lease liabilities and right-to-use lease assets on our balance sheet as annual operating costs would be grossed up in these values. This would greatly distort our liabilities and assets, and impact the timing of expense recognition, given the asset amortization and interest accumulating on liability balances. We do not believe that the bundled non-lease contracts or agreements would offset this distortion. While we understand that this is optional under the alternative view presented, we are concerned about the consistency across the federal government and the usability of the financial statements, particularly in consolidated reports. We have further concerns with the significant flexibility each reporting entity has, that decisions to apply such methods may be overly focused on cost savings within the financial management function, with insufficient regard to the impact on financial reports and impacts on users of the financial statements. We would only view paragraph A21.a to be appropriate when the non-lease components included are de minimis.  We disagree with the proposal in paragraph A22 to allow a reporting entity to choose not to apply the requirements of paragraphs 85-86 of SFFAS 54 to a contract or agreement for which it has elected the practical expedient described in paragraph A21.a when any modification to such contract or agreement relates only to its nonlease components. While we appreciate that the alternative view is trying to minimize the burden required to remeasure the lease liability and asset annually because of changes to operating costs, we are concerned that this would cause even greater distortion to the financial statements by overstating interest expense when there is no relationship to carrying balances of the liability.  Further, the alternative view does not address complications, such as when contract modifications change the primary nature of the contract or when options are exercised.  We are generally in agreement with the alternative view for contracts or agreements where the primary purpose is non lease in paragraph A21.b as it is more in line with the proposed transitional accommodation.



**QFR 7: Four Board members provided an alternative view, which is documented under the basis for conclusions (appendix A), paragraphs A15-A26. Please refer to these paragraphs to review the alternative view as presented.**

**Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.**

Ref. No.	Response
8	<i>Comments provided in letter form.</i>
9	The Department partially agrees with the alternative view, in that accounting for some contracts according to their primary purpose (lease or non-lease) would be practical but impractical for others. With our contracts, there are several where the primary purpose is to provide a service, with a few assets included that are peripheral to the contract. Nonetheless, these assets would qualify as non-lease components and would have to be accounted for as such under the current standard. We believe the practical expedient mentioned in the alternative view would be appropriate to implement here, as the underlying assets are relatively inconsequential to the contract but take time and effort to identify and account for as lease components. On the other hand, we have a contract that is primarily a service contract but has several underlying assets (PP&E) included. It would be impractical to apply the alternative view's practical expedient here because although it is primarily a non-lease contract, the lease components could be significant and need to be accounted for as such under the current SFFAS 54.
10	DHS supports the alternative view proposed by Mr. McNamee at the June 2023 FASAB board meeting. We believe this approach would substantially reduce the cost of implementing SFFAS 54 without materially diminishing the quality of financial reporting of leases. The alternative view proposed that a reporting entity may elect to account for contracts or agreements according to their primary purpose, as either lease or non-lease. Therefore, a contract whose purpose is primarily attributable to its lease components could be accounted for as a lease in its entirety. If a contract or agreement's purpose is primarily attributable to its non-lease components, it could be accounted for using the standards applicable to the non-lease components. This would significantly decrease the administrative burden to separate lease and non-lease components of a contract and likely result in immaterial differences to the Balance Sheet.
11	The alternative view has so many additional subjective factors affecting implementation, I wonder why we are making any change to the current standard. My suggestion is the Board be clear and together on the ultimate conclusion of what it wants to do on leases. If the implementation date is too aggressive for Agencies, change the implementation date but don't compromise on the standard changes themselves. As I read through this, I feel the Board is all spun around on its direction and where it is going in an updated lease guidance.
12	<p>We agree with the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks that, as a permanent practical expedient, reporting entities should be allowed to account for contracts based upon primary purpose for the following reasons:</p> <ul style="list-style-type: none"> <li>• Impact on Financial Reporting – The impact of not requiring that nonlease components be separated from lease components in primarily lease-like contracts and that lease components be separated from nonlease components in primarily service-like contracts is likely offsetting and immaterial as proposed in the alternative view. Nonlease components within leases and lease components within service contracts are, by definition, insignificant to the overall purpose of the contract and are even less significant in comparison with total non-intragovernmental assets (as noted in exposure draft A25).</li> </ul> <p>A practical consideration, that may imply even further reduced financial reporting impact, is the possibility that many nonlease components within leases and lease components within service contracts will not be separately accounted for under SFFAS 54 (either with or without a permanent practical expedient) due to the impracticability of determining a best estimate for price allocation (as allowed for under paragraph 76 of SFFAS 54).</p> <ul style="list-style-type: none"> <li>• Flexibility and Practicality – It could be beneficial for entities that have contracts with both lease and non-lease components to have the option to elect a practical expedient to account for contracts based on their primary purpose. This approach would reduce the administrative burden associated with separating lease and non-lease components that may not result in any significant impact to financial reporting (first paragraph above) or may even be avoided altogether by the leeway provided in paragraph 76 guidance (second paragraph above).</li> </ul> <p>The alternative view expresses the notion that reporting entities may already have systems in place to separate lease and nonlease components, and that granting a practical expedient may therefore be unnecessary. Given the preponderance of operating rather than capital leases that likely exists at agencies under current guidance, we believe that most agencies do not currently have a system in place to separate the lease and nonlease components.</p> <p>For these reasons, we agree with the FASB conclusion that “the costs and administrative burden of allocating consideration to separate lease and nonlease components may not be justified by the benefit of more precisely reflecting the right-of-use lease asset and the lease liability” (exposure draft A24) and that the transitional accommodation could be made a permanent practical expedient without substantially diminishing the quality of the financial reporting of leases.</p>
13	<p>DoD components expressed mixed opinions regarding the alternative view; however, the majority of the components who submitted comments generally agreed with the alternative view or parts of it.</p> <p>Some components think that that the alternative view approach would likely lead to a simplified and streamlined implementation, thus reducing cost without significantly altering reporting quality, provided the differentiation and application of the standard was disclosed. This especially applies to large reporting entities within the DoD who have difficulty identifying "embedded leases" and controlling/monitoring/accounting for them at the level of detail required in SFFAS 54.</p> <p>Other components expressed a concern that the practical expedient can be abused due to lack of criteria for defining the primary purpose of the contract, which, in turn, will diminish the quality of financial reporting of leases. To avoid that, they suggest guidance or limitations be defined on when the practical expedient can be used.</p>

**QFR 7: Four Board members provided an alternative view, which is documented under the basis for conclusions (appendix A), paragraphs A15-A26. Please refer to these paragraphs to review the alternative view as presented.**

**Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.**

Ref. No.	Response
14	<p>DOJ fervently agrees with the alternative view. If the lease is not the primary component of the contract, excluding it would not negatively impact the quality and accuracy of the financial statements. Furthermore, this approach would still accurately reflect an entity's overall position concerning lease assets and liabilities. We also believe this alternate view aligns with the Board's practical expedient for embedded leases. This mitigates the challenges associated with tracking lease and non-lease components of the same contract separately, simplifying the reporting process.</p> <p>DOJ's identified primarily "non-lease" contracts to date are primarily service contracts with embedded use of equipment or property. The value provided to the Department's mission is the entire package of services, and not just the use of the property. The services involve expertise that is cheaper and easier to contract for than to develop and provide in house by government FTEs. For example:</p> <p>Bureau of Prisons (BOP) mission is "Corrections professionals who foster a humane and secure environment and ensure public safety by preparing individuals for successful reentry into our communities." To support this mission the Bureau of Prisons funds rehabilitation programs to facilitate an inmates successful reentry into the general community. Residential Re-entry Contracts (RRC) are structured, supervised environments for inmates nearing release. These facilities provide inmates the opportunity to gradually rebuild their ties to the community, while receiving services such as counseling and job placement. Inmates also use this transition period to continue programs they may have participated in while incarcerated at a BOP facility; for example, the final phase of substance abuse treatment is completed at an RRC. These types of contracts are charged on a per inmate basis, at a flat fee for each day of services. This service includes housing, which would be considered an embedded lease of real property, but the primary purpose is the services intended to facilitate re-reentry into the general community. BOP also maintains contracts for medical services for the inmate population at regional medical centers. These contracts can include a controlled space for healthcare for inmates (a "lease" of a small portion of the hospital's building"), but the main purpose of the contract is the healthcare services received. Does a financial statement user receive value to see how much we are spending on housing inmates during medical treatment or during rehabilitation periods, compared to the services being provided at those times?</p> <p>Additionally, all of our embedded lease examples are standard procurement contracts with option years, subject to availability of funding clauses, and options to terminate, therefore the long-term liability of these contracts even including the probability requirements of the standard is generally limited to 5 years and is easily canceled if necessary with little required termination costs. When you then bifurcate the contract costs between the lease and non-lease components, there is less value being reported on the balance sheet. What is the value in reporting balance sheet asset/liabilities for a portion of a service contract when all of the service costs will only be reported as liabilities once they have been incurred?</p> <p>One of our primary challenges in the initial implementation is identifying the completeness of our lease population given that leases, or contracts with a primary lease purpose, may not be currently coded as such. The alternative view would still require DOJ to review contracts at a level that would improve financial reporting and classification, and standardize the classification of contracts in a more consistent and granular level of detail, even if the contracts categorized as non-leases are not included in the calculation of assets/liabilities for recognition on the balance sheet. This will still lead to improved financial reporting, including reporting through usaspending.gov as well as the financial statements.</p> <p>However, we have identified two areas that require further clarification. Firstly, criteria should be defined for entities to determine the primary purpose of a contract between a lease and non-lease components. This would help support a consistent approach to identifying lease vs. non-lease contracts or agreements across different entities.</p> <p>Secondly, we suggest adding language to paragraph A17, similar to paragraph 96D from the proposed amendment. This would allow entities to group contracts or agreements that are reasonably similar in nature and assess the contract's primary purpose, whether it is a lease or non-lease.</p> <p>DOJ plans to submit an addendum of questions related to the standard for further consideration.</p>
15	<p>Agree with the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks. Do not agree that a transitional period will provide meaningful or less costly relief overall. Although delayed, any reviews or tracking by many agencies will be manually intensive and will not be cost beneficial in the understanding by users of the financial statements. Refer also to QFR3.</p>
16	<p>We agree. We strongly recommend that FASAB adopt the concepts noted in paragraphs A15-A16 (alternative view). The recommendations will lead to relief in otherwise complex system process changes and operations support needs. We understand that an agency will still be required to define processes and responsibilities towards analysis and determination of "Primary purpose of the contract", however the suggestions in the view have potential to reduce the overall implementation and operational cost that the DOI would have.</p>
17	<p>Agreement with Transitional Amendment (Alternative View) State agrees with the intent of the alternative view. Although State does consider that additional research would be required before the language could be added to the standard, to avoid any unintended consequences. State recommends adopting the transitional amendment and applying a fully researched permanent alternative view starting FY 2026.</p> <p>State would recommend considering allowing for the permanent expedient to include similar language as paragraph 96D which would allow grouping of contracts or agreements that are reasonably similar in nature. Analysis in the first year, and periodic checks to confirm the results are still reasonable, would allow for additional relief.</p> <p>State agrees with the language in paragraph A21 would provide relief for embedded leases as valuation can be one of the most challenging and time-consuming parts of embedded lease reporting.</p>

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**Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.**

Ref. No.	Response
18	<p>The Department is very respectfully strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26), which proposes broader, permanent relief including of optional practical expedience approaches by a preparer as compared to transitional relief. The Department believes that it is important to note that the Alternative View does not require a preparer's adoption of the practical expedience approaches set forth.</p> <p>The Department strongly believes that the proposed Alternative View including the optional practical expedience approaches sets forth an appropriate and supportable costeffective balance of a broader and permanent approach for an amendment to SFFAS 54 regarding providing relief to preparers regarding financial accounting and reporting for embedded leases, while appropriately providing meaningful and appropriate financial reporting information to users of the financial statements and appropriate burden/costs to preparers regarding financial accounting and reporting for embedded leases.</p> <p>The Department believes that the Alternative View approach set forth could significantly reduce the implementation burden and ongoing burden/cost of financial accounting and reporting to preparers without substantially diminishing the quality and usefulness of financial reporting to users, as discussed in Alternative View paragraph A.16.</p>
19	<p>While we understand and respect the intent of the alternative view to consider the cost and benefit of standards, we would not be in agreement unless and until it can be demonstrated that the lease components of such contracts are, in fact, trivial, or until it can be articulated how particular factors in the federal environment make the cost and benefits significantly different than the value proposition for this accounting in the private or state and local government sectors.</p> <p>In general, we support the goal of convergence with other standard setters whenever it makes sense within the context of the federal environment. We also agree with the inclusion of practical expedients whenever justified. However, we note that the practical expedient provided by the FASB in ASC 842-10-15-37 as mentioned in basis for conclusions (or the practical expedient provided in GASB 87 paragraph 67) does not appear to be the same as the alternative view.</p> <p>The alternative view seems to be predicated on the assumption that the lease component of these contracts would be clearly trivial. That is, in contracts that primarily contain nonlease components within the federal environment, that the size and nature of any lease components are expected to be inconsequential both individually and in aggregate with other lease components or any other accounting matters. If this is truly the case, there is already relief in place for agencies under the materiality provision of the standard. However, we are concerned that this assumption has not yet been demonstrated, given the lack of analysis for this population of contracts.</p>
20	<p>HHS agrees with and prefers the alternative view. The alternative view would require less burdensome analysis and reduce the cost of implementing this standard for agencies. As stated in the alternative view, reporting embedded leases using the provision in paragraphs 21a and 21b "any resulting differences in the timing of expense/revenue recognition would likely be immaterial to reporting entities' balance sheets."</p>
21	<p>RMA generally agrees with the four-board member's alternative view. RMA requests the board reassess the value of segregating leases from contracts whose primary purpose is a service-type agreement. If the general purpose of an agreement is service-related, is there additional value-added that the board believes is cost-beneficial to the government to segregate out the non-lease from lease portion of a service-related agreement?</p>



## Leases Project Plan

	<u>Leases</u> SFFAS 54 ✓	<u>Deferral</u> SFFAS 58 ✓	<u>Implementation</u> <u>Guidance</u> TR 20 ✓ Rd. 1 Updates Rd. 2 Updates	<u>Omnibus</u> SFFAS 60 ✓ SFFAS 61 ✓	<u>Leases-Related</u> <u>Intragov. RWAs</u> TB 2023-1 ✓	<u>Transitional</u> <u>Amendment</u> SFFAS TBD	<u>Training /</u> <u>Outreach</u>
FY 18	SFFAS 54 ISSUED						
FY 19	Research						
FY 20	Draft Exposure Period Finalize / Approve Issuance SFFAS 58 ISSUED		Research Draft	Research Draft			Provide
FY 21			Exposure Period Finalize / Approve Research	Exposure Period Finalize / Approve Research	Research Draft		Provide
FY 22			Issuance TR 20 ISSUED Research	Issuance SFFAS 60 ISSUED Research Draft Exposure Period Finalize	Research Draft Exposure Period Finalize		Provide
FY 23 Q1-3			Research Draft Exposure Period	Finalize / Approve Issuance SFFAS 61 ISSUED	Finalize / Approve Issuance TB 2023-1 ISSUED	Research Draft	Provide
FY 23 Q4			Finalize / Approve Target Issuance			Exposure Period Finalize / Approve	Provide
FY 24 Q1						Target Issuance	Provide
FY 24 Q2-4			Research				Provide
FY 25			Research Draft Exposure Period Finalize				Provide
FY 26			Finalize / Approve Issuance				Provide

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