



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1100

COMPTROLLER

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

JAN 28 2020

Dear Ms. Valentine:

The Department of Defense (DoD) is pleased to submit the attached comments on the Federal Accounting Standards Advisory Board (FASAB) Exposure Draft (ED) of the proposed Statement of Federal Financial Accounting Standards (SFFAS), "Deferral of the Effective Date of SFFAS 54, Leases." The DoD agrees with the proposed ED. Detailed response to FASAB's question and supporting details are provided in the enclosure.

Thank you for considering the DoD's input.

Sincerely,

A handwritten signature in blue ink, reading "D.A. Glenn", is positioned below the word "Sincerely,".

Douglas A. Glenn
Assistant Deputy Chief Financial Officer

Enclosure:
As stated

Deferral of the Effective Date of SFFAS 54, Leases

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Please email your responses to fasab@fasab.gov. If you are unable to respond by email, please fax your comments to (202) 512-7366.

- Q1.** Do you agree with the proposed two-year deferral of the effective date of SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*? The new effective date would provide for full implementation of SFFAS 54 for reporting periods beginning after September 30, 2022. Please provide supporting details behind reasons for your position.

DoD Response: Agree. *We agree with the proposed two-year deferral of the effective date of SFFAS 54. The new lease standard is a significant change in accounting practice. Therefore, the proposed two-year deferral of the effective date of SFFAS 54, would give DoD additional time to consider and address the implementation challenges and concerns in the following areas:*

- Identification of the leases population and abstraction of required lease data: DoD's total population of leases is unknown at this point in time. Identifying DoD leases is complex as every lease is not labeled as a "lease agreement," and may be embedded in related documentation. Identifying embedded leases involves considerable time and professional judgement as many of DoD contracts have not been identified as leases in the past. Locating and*

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compiling the entire population of DoD leases may take an average of 3-9 months to complete. Required lease data can be a challenge to abstract, migrate, and maintain. Many lease agreements contain complex terms and conditions that could impact accounting conclusions. Some DoD lease agreements have numerous amendments, thus making identification of the appropriate source document for required data fields an additional level of complexity. DoD lease agreements do not easily contain all the necessary data fields necessary to comply with the new lease accounting standard (e.g., discount rate and fair value). Abstraction of DoD leases and required lease data may take on average an additional 4-12 months.

- *System modification:
The new lease standard requires significantly more data and calculations to produce accounting journal entries and disclosures. New lease technology solutions will have to be acquired or existing systems will have to be modified in order to comply with the new lease accounting standards. Internal processes and requirements for systems that need to be approved for use can significantly impact the implementation timeline. Some DoD Components are currently improving their system environment with migrations from outdated legacy systems with an estimated completion expected in October 2023.*
- *United States Standard General Ledger (USSGL) configuration:
System and data integrity is one of the primary implementation issues. According to the U.S. Department of the Treasury, four new or repurposed USSGL accounts would facilitate and/or affect implementation of SFFAS 54. Accordingly, these configuration changes would require significant lead-time to adequately test and implement USSGL updates to the underlying systems that feed into the respective DoD financial statements. Furthermore, the accounting treatment of certain lease transactions are also unknown at this point in time (e.g., leasehold improvements where DoD advanced funds to GSA who is the lessor).*
- *FASAB Implementation Guidance and other pronouncements:
The new lease standard is a significant change in the accounting for leases, and given the unfamiliarity with SFFAS 54, several questions and concerns have been posed. The forthcoming FASAB Implementation Guidance will address key issues that will help DoD synthesize and integrate FASAB guidance appropriately. FASAB also confirmed that various additional guidance and other pronouncements would have to be issued in order to address some of the key issues. Consequently, DoD requires the review, development, and update of all applicable lease accounting and accountability policies, procedures, and manuals at the Office of the Secretary of Defense and Component level.*

Deferral of the Effective Date of SFFAS 54, Leases

- *Other priorities:*

The implementation of SFFAS 54 has not been a priority as DoD has been mainly focusing on the initial DoD-wide financial audit and addressing significant notice of findings and recommendations, and corrective action plans. Also, some DoD Components have been focusing on getting their legacy financial and feeder systems compliant with current effective policies, accounting standards, and Federal financial management requirements.

In conclusion, the two-year deferral of the effective date of SFFAS 54 would help DoD in achieving the successful implementation of SFFAS 54 for reporting periods beginning after September 30, 2022 as DoD would be able to address implementation challenges and concerns as noted above.