

Exposure Draft Questions for Respondents (QFR) and Specific Matters for Comment (SMC)

Due: February 5, 2021

Implementation Guidance for Leases & Omnibus Amendments to Leases-Related Topics

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"/>	
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Please provide your name.

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Please email your responses to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, please call (202) 512-7350 to make alternate arrangements.

**QFR 1** Do you generally support the proposed Statement and TR proposals as a whole? Please provide reasons for your views.

No, I do not support the proposed changes for lease accounting activities. For agencies where property is a significant and material part of their activities, such as GSA, then maybe it makes sense to capitalize the non-federal leases. But for other agencies where property leases are a tool needed to perform tasks with producers/customers for the mission, the accounting should be simple and cost efficient as previously stated. The agencies can continue to use their money for their mission and programs, and not have to spend significant dollars to enhance accounting and inventory systems, and to hire accountants.

The USDA agencies lease office space in substantially all counties in the US to be close to our customers and business partners. The agencies do not have authority to purchase the buildings/office space under lease. The functional use is leasing expense and the simple straight-forward presentation is the annual lease expense and not a capital asset amount to amortize month by month. I think SFFAS is complicating a simple accounting transaction.

Please see my earlier comments from Jan. 6, 2017.

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**QFR 2** Are there specific aspects of the proposed Statement and/or TR that you disagree with? If so, please explain the reasons for your positions, the paragraph number(s), and/or topic area(s) of the proposals that are related to your positions, and any alternatives you propose and the authoritative basis for such alternatives.

The Technical Release (TR) raises the possibility that Easements could be considered leases. I have limited experience with Easements but my understanding of the NRCS easements generally require that the producer / landowner to install / perform conservation practices and maintain the practices for a stated period.

Our agency will have additional conversations and reviews of Easement transactions before a decision is made.

Paragraph 5 covers the concept of uninterrupted control. If a lessee is in a “timeshare arrangement” for 4 months per year, over a period of years, I do not agree that the lessee really has “control” because the lessee needs to restore the property back to its original condition for the next tenant. If the lessee modified or enhanced the property, the modifications would need to be “undone” if the others in the timeshare arrangement did not feel that the modification was beneficial to them.

**QFR 3** Are you aware of any implementation issues that are not addressed in the proposed Statement and/or TR? Do any ambiguous areas remain that could lead to challenges with implementing SFFAS 54 requirements? If so, please provide examples of the issues and any references to applicable guidance, and/or topic area(s) related to the issues, and any potential solutions you propose.

Two potential issues or concerns are: (1) the determination for materiality for USDA agencies, which will be the primary driver for the number of capital leases; and (2) the funding required to cover the obligations assuming that the principal for each capital lease has to be fully funded for the term of the lease.

I expect the need for “no year funding” will increase dramatically with the SFFAS 54 implementation on 10/1/2023 as each federal agency will now need to fund its obligations for the full term of each capital lease, as many of the non-federal leases will change from operating leases to capital leases.

Is there an alternate approach that will not require full term funding?

If not, does the committee have an estimate as to how much additional funding will be needed?

**QFR 4** Are there specific aspects of these proposals that you favor or otherwise wish to provide comments on?

There are a variety of lease-related transactions covered in SFFAS 54 and the TR, that will create new entries recorded in accounts 1810, 1819 and 2940, which are the existing capital lease accounts. It may be beneficial to revamp / enhance the BOC codes and chart of accounts to facilitate the monitoring of the entries for the capital lease transactions.

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It would also be beneficial to have examples for the more popular lease transactions, showing the calculations for the leased asset, lease liability, etc., and the accounting transactions. Some agencies do not have experience with capital leases and the examples would be valuable reference material.

**SMC 1** Is the proposed guidance under paragraph 4 of the proposed TR applicable to federal lease scenarios to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

No, the example provided is a bit far-fetched in terms of \$100 per year rent for a building with \$500,000 per year market rent. In the past NRCS would score / identify leases with nominal rental amounts as operating and label the lease as "gratuitous". And generally, the nominal rents were with non-fed lessors who were business partners, such as the Conservation Districts, etc.

**SMC 2** Please provide feedback regarding the usefulness of the proposed guidance under paragraph 13 of the proposed TR and/or the extent to which you believe the proposed guidance addresses implementation issues related to federal oil and gas leases. Please describe any alternative views or suggestions for improvement.

I am not aware of any oil and gas activities for NRCS. It would be helpful to explain or provide a reference for "variable payments that are fixed in-substance", and an illustration as to how the lease liability is calculated.

**SMC 3** Is the proposed guidance under paragraph 95 of the proposed TR potentially applicable to intragovernmental transactions that are similar to a sale-leaseback to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

I am not aware of any sales-leaseback transactions for NRCS.

**SMC 4** Is the proposed guidance under paragraph 98 of the proposed TR applicable to existing and/or potential intragovernmental lease-leaseback transactions to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

I am not aware of any lease-leaseback transactions for NRCS.