

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"/>	
Federal Entity (user)	<input type="checkbox"/>	
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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.

**DOI Response:** As a whole, DOI generally supports the proposed Statement and TR proposal. The TR helps to clearly define a myriad of circumstances agencies may encounter. The document will become a valuable resource.

**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.

**DOI Response:** It is unclear whether temporary easements and other land rights should be recorded as a lease asset in accordance with SFFAS 54 or as land/PP&E in accordance with the draft SFFAS for land and the current SFFAS 6. SFFAS 6 paragraph 18 says PP&E also includes land rights with the footnote land rights are interests and privileges held by the entity in land owned by others, such as leaseholds, easements.... The draft SFFAS for leases paragraph 25 amends paragraph 18 by removing "leaseholds". Paragraph 26 of the draft lease SFFAS adds paragraph 19A to SFFAS 6 and says PP&E excludes lease assets and land rights that meet the

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definition of a lease. The draft Land D&S paragraph 6.e provides disclosure requirements: Land rights information should include a general description of the different types of rights acquired by the entity, whether such rights are permanent or temporary, and amounts paid during the year to maintain such rights. Land rights and easements are mentioned multiple times throughout the PP&E SFFAS 6, the land draft SFFAS, and Lease SFFAS 54. It seems the 3 different SFFASs do not complement each other. It is unclear how to account for land rights and which disclosure requirements would apply.

Additionally, DOI would like clarification within paragraphs 6 (and how it ties in with paragraph 8) and 13. DOI's paragraph 13 comments are addressed in SMC 2. DOI's paragraph 6 comments are as follows.

The question in paragraph 6 states, "Do easements meet the definition of a lease?" Within the text after the question, it states, "Land rights easements, rights-of-way, and other like interests in land can qualify as a lease under paragraph 2 of SFFAS 54, with land being the underlying asset." The remaining explanation is specific to easements. Could the question and response be broadened to capture rights-of-ways and other land interests? In paragraph 8, the questions relate specifically to a right-of-way agreement and a livestock grazing agreement and states these meet the definition of a lease. DOI does not disagree with the responses but would not want readers to interpret paragraph 8 as all-encompassing and that all rights-of-way agreements and grazing agreements meet the lease definition. By broadening the question in paragraph 6, DOI believes this may alleviate any ambiguity as the response states, "... and other interests in land can qualify as a lease...", which leads the reader to presume not all agreements will qualify as a lease.

**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.

**DOI Response:** There seems to be a gap between SFFAS 54 and SFFAS 6 regarding contracts or agreements that transfer ownership. Paragraph 25 of SFFAS 54 states these assets should be treated as a purchase by the lessee and a financed sale by the lessor. The updated SFFAS 6 does not mention leases that transfer ownership should be considered PP&E (Paragraph 18 of SFFAS 6). The newly added paragraph 19 of SFFAS 6 states, "Property, plant, and equipment also excludes lease assets and land rights that meet the definition of a lease under SFFAS 54, Leases." This could create confusion as to how agreements that transfer ownership are to be treated. Could SFFAS 6 be updated to avoid any confusion?

Also, within SFFAS 54, suggest reviewing footnote 5 that references Paragraph 26 of SFFAS 6. Is this is referencing the correct paragraph.

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

**DOI Response:** No. 4, Regarding inter-entity transactions (intragovernmental leases), would this only apply if the lessor is the true owner of the building. For DOI, several office spaces and warehouse storage spaces are leased through GSA via an Occupancy Agreement (OAs) (GSA holds the commercial leases for these OAs). Does GSA have ability to provide agencies/bureaus with the Inter-entity cost information to book as the financing source, for GSA owned buildings? Does this section apply to the intragovernmental OAs where GSA has the commercial lease? The market rent for space leased via GSA OAs is not currently made available to the lessee.

**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.

**DOI Response:** Yes, DOI's partners sometimes lease to us for less than market value (especially easements).

Could this paragraph be clarified to explicitly state the lease should be recorded at the actual cost and not the market value? It appears to be implied, but to avoid any confusion or incorrect interpretation, it might be better to actually state the cost at which the lease should be recorded.

**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.

**DOI Response:** DOI has many complex oil and gas leases, both on-shore and off-shore (the Outer Continental Shelf). Each of these leases, or lease categories, will need to be reviewed to determine if they meet the lease definition. To give some perspective, in fiscal year 2019, DOI had over 24,000 active leases that were reporting rents and/or royalties.

Most, if not all, of DOI's leases state that on or after the discovery of oil or gas in paying quantities, the lease payments cease and royalty payments begin. Thus, there is no definitive lease term as it's dependent upon the discovery of the natural resource. As such, most of these leases may not meet the definition of a lease per SFFAS 54. Additionally, if DOI were to record only the lease portion as an asset on its balance sheet, DOI believes this would misrepresent its true future collections and potentially mislead readers since once royalties begin being collected, they often are significantly greater than the rent amounts.

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DOI believes it best to remove paragraph 13 and allow agencies to determine if oil and gas leases meet the criteria of SFFAS 54 rather than create potential confusion within agencies and possibly with agency audit firms.

If FASAB disagrees and would like to keep paragraph 13, DOI believes the response should more closely mimic the GASB response to a similar question in GASB 2019-3 Q 4.10. That question and response is as follows:

Q – A government enters into a lease agreement that conveys control of the right to use a parcel of land to a company that engages in oil and gas exploration and production. Is this lease excluded from Statement 87?

A – No. In this example, the company has control of the right to use the land itself. In contrast, if the government only provided the company with the right to explore for and to exploit oil and gas but did not convey control of the right to use the land, that lease would be excluded from Statement 87. Although paragraph 8a of Statement 87 excludes “rights to explore for or to exploit natural resources such as oil, gas, and minerals? That exclusion applies only when the underlying asset in the lease is the right to explore for or to exploit those resources.

Additionally, paragraph 13 could be clarified to make the distinction between on-shore and off-shore leases. Off-shore leases do not meet the definition of a lease for three reasons, while certain on-shore leases could perhaps meet the lease definition. Off-shore leases do not meet the lease definition for the following reasons:

- Off-shore leases have no noncancelable periods,
- Off-shore leases only convey the exclusive right and privilege to drill for, develop, and produce oil and gas resources, and
- Off-shore leases do not give access or control of PP&E. The Outer Continental Shelf does not meet the SFFAS 6, paragraphs 16-17, definition of PP&E and is not part of DOI’s PP&E nor Stewardship PP&E.

**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.

**DOI Response:** DOI is unaware of any instances in its federal leases that might fall under this scenario. However, if a lease did fall within this scenario, DOI believes the guidance is useful and accurate.

**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

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Please describe any alternative views or suggestions for improvement.

**DOI Response:** DOI is unaware of any instances in its federal leases that might fall under this scenario. However, if a lease did fall within this scenario, DOI believes the guidance is useful and accurate.