

February 4, 2021

Mr. George A. Scott, Chair  
Federal Accounting Standards Advisory Board  
4411 G. Street NW  
Suite 1155  
Washington DC. 20548

via email to [fasab@gasab.gov](mailto:fasab@gasab.gov)

Dear Mr. Scott,

On behalf of the Association of Government Accountants (AGA), AGA's Financial Management Standards Board (FMSB) provided comments on January 29<sup>th</sup> to the Federal Accounting Standards Advisory Board (FASAB) on the joint exposure draft (ED) on the Federal Accounting Technical Release titled *Implementation Guidance for Leases* and Statement of Federal Financial Accounting Standards titled *Omnibus Amendments to Leases-Related Topics*.

Members of AGA's Corporate Partner Advisory Group (CPAG), specifically the Accounting and Auditing Committee, *also* desired the opportunity to articulate their views. Please find their response below.

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

We are supportive of the proposed Statement (SFFAS 54) and the Technical Release (TR). While the implementation of the Statement will be challenging for agencies there are benefits to be provided to the agencies, the users of the financial statements and the public. We feel the Statement will provide increased line of sight into real assets, other property, and equipment, which the Agencies control through long-term financing contracts. The commitments associated with such contracts will become more visible, also increasing accountability over related interest costs. Centralized lease contracts and documentation will also provide the ability for agencies to improve data management practices and better manage vendors resulting in the opportunity to save costs. Additionally, the Statement will provide more clarity and consistency in financial statement presentations and audits of the agencies' financial statements.

**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.

There are various aspects of the proposed statement we disagree with or would like to see enhanced:

- [OMB A 11 Alignment](#)
  - Overall, SFFAS 54 breaks the alignment between OMB A11 and SFFAS requirements as far as lease scoring/classification. We encourage the board to

initiate a joint project with the OMB to ensure simultaneous compliance with both frameworks is feasible for the Federal Agencies by October 1, 2023.

- SFFAS 54 Par. 19(a) Determination of lease term for both the lessee and lessor
  - Guidance notes: “ *Periods for which both the lessee and lessor (1) have an option to terminate the lease without permission from the other party or (2) have to agree to extend are cancelable periods and are excluded from the lease term.*” .
  - We would like to encourage the board to consider scenarios with significant penalties or other factors that might render highly likely that options to cancel will not be exercised. Consistent with the spirit of Par 17., assessment of lease term should incorporate factors relevant to how probable it such cancellation or termination option will be exercised.
  
- Per Reassessment of Lease Term – Implementation Guide Par. 32
  - Guidance per Par. 32 warrants a retroactive look at the lease term at the time an Agency exercises a renewal option that was originally incorporated into lease term (vice versa). Based on the particular example provided within Par. 32: If an Agency exercises a 12 month renewal option only 1 month prior to the end of a 24-month original lease term, the reassessed lease term would be 36 months. As the retroactively reassessed lease term would be over 24 months (max threshold for short-term lease classification), the Agency would have to capitalize remaining lease payments (only for 13 months) on their balance sheet as ROU Asset / Lease Liability.
  - We believe this is in conflict with the spirit of SFFAS 54, whereby the Agencies are provided the benefit of keeping leases off balance sheet due to volume and complexity of work required significantly exceeding the benefits of capitalizing future commitments, unless such commitments pertain to long periods of time (i.e., >24 months). We would recommend the Staff reconsider related requirements such that capitalization of a lease (whether at initial commencement **or on the date of reassessment**) is only required if the remaining cash flows to be brought on balance sheet relate to a period longer than 24 months.
  
- Short term leases – SFFAS 54 Par.23 and Implementation Guide Par.33
  - Deferral and subsequent amortization of concessions represents a significant level of work for the Agencies.
  - In cases where concession might represent a free rent period, the Agencies will need to estimate the value of such concession (e.g., market rent or the cost to lessor), impute rent expense for the months of free rent all the while amortizing the concession over the lease term.
  - Cost of tracking related information and processing related amortization through the lease term exceeds the limited benefits of such practice, particularly as it relates to short-term leases whereby it is not expected to see significant balance of concessions. We would like to encourage the board to reconsider such requirement and allow the Agencies an option to record short-term lease concessions when received.
  
- Impairment– Implementation Guide Par. 58
  - Par. 58 notes: “*Moreover, the PP&E subject to impairment is on the books of the lessor in accordance with paragraph 66 of SFFAS 54; not the lessee. Therefore, this is not impairment for the lessee.*”. Such comments allude to impairment losses not being a possible outcome on ROU assets. We would recommend for Staff to provide further clarification on the matter. Similarly, we would recommend for the

Staff to bring clarification around impairment of lease receivables held by Lessors (whether through reference to other standards or guidelines within SFFAS 54).

- SFFAS 54 Transition – Implementation Guide Par. 100 and Par. 101 of the Implementation Guide – Treatment of legacy lease balances
  - Par. 100 and Par. 101 strictly require use of post-implementation lease payments in establishing implementation date lease balances. Further clarification is needed around treatment of legacy lease balances that have post-implementation economic benefits (e.g., pre-implementation security deposits or prepayments to be applied against post-implementation rent, pre-implementation initial direct costs with post implementation economic benefits, etc.).
  - Unless amended, Par. 100 and Par. 101 would imply that the Agencies should identify such deferred balances, bifurcate from legacy lease receivables/payables that will be reset upon SFFAS 54 implementation. Those deferred balances would then have to be accounted for separately from the SFFAS 54 balances to avoid an SFFAS 54 transition restatement. This will, in fact, create a much bigger burden on the agencies.
  - We would highly recommend the board to consider a more flexible approach allowing agencies to adjust legacy lease balances as needed (i.e., through a matching adjustment to net beginning position) for ease of a fresh start compliant with the requirements of SFFAS 54.
  
- SFFAS 54 Transition –Implementation Guide Par. 100 and Par. 101– Adjustments to net beginning position
  - Par. 100 and Par. 101 require that the transition date ROU asset and lease liability be equal. Such requirement conflicts directly with guidance from SFFAS 54 par. 49 (b) and 49 (c) for Lessee accounting. Even if the lease liability assessment is strictly based on post-implementation lease payments, the existence of certain future lease payments types could warrant the right-of-use asset to differ from the lease liability (for examples of such types of lease payments, refer to SFFAS 54 par. 49 (b) and 49 (c) for Lessee and 64 (b) for Lessor).

**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.

- Transition – Practical Expedients
  - Given the likely pervasive impact of SFFAS 54 on the Agencies' financial reporting processes, controls, technology and financial statements, we would encourage the Staff to further consider incorporating a package of practical expedients into SFFAS 54 transition model similar to that of ASC 842, Leases.
  - Such expedients package could include the removal of requirements to reassess the following as of transition date:
    - Whether expired or pre-existing contracts contain leases
    - Lease classification for any expired or pre-existing leases
    - Initial Direct Costs (IDCs) for pre-existing leases
    - Bifurcation of lease and non-lease components on pre-existing leases
  - The practical expedients would only be applicable to the extent legacy balances would be compliant with relevant legacy lease accounting/reporting requirements of SFFAS 5 and SFFAS 6.

- Introduction of Significant Evidence Threshold
  - Similar to the threshold of “probable” defined further in SFFAS 54 – Basis for Conclusions par. A35 as “>50% probability”, the Staff should consider providing further quantitative guidelines for the “significant evidence” threshold. Lack of guidelines will result in inconsistencies between agencies, risk of confusion on the part of Auditors in allowing such differences in practice, room for change in judgment year over year, etc.

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

We appreciate the detailed examples provided within the TR and we favor detailed examples especially for more complex transactions to provide guidance to financial statement preparers, practitioners, auditors, and financial statement users.

**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.

- Proposed guidance under par. 4 of the proposed TR is applicable to certain agreements entered into by the Federal Agencies.
- As it relates to this guidance, volume of ground (or other) leases contracted for nominal amounts significantly below market may not be readily visible as related data points may not currently be captured and analyzed to sufficient extent under the legacy SFFAS framework. We do expect leases of such nature are likely to be further identified in implementing SFFAS 54.
- While the proposed guidance is useful for related scenarios, further clarification is needed around non-cash transactions (e.g., rental of space from a landlord in return for services to be provided by lessee to lessor).
  - Please clarify whether such non-cash transactions with other agencies would still be in the scope of SFFAS 54 and require an imputed rent amount to be determined within the scope of SFFAS 4.
  - Please provide similar clarification as to requirements pertaining to non-cash lease agreements with commercial entities (not inter-entity).
  - Clarification provided for above purposes would also help the Agencies understand whether consideration received in a lease arrangement has to be in cash form for the transaction to be in the scope of SFFAS 54.
- Lastly, we would like to encourage the Staff to consider consistency between par. 4 of proposed TR (imputing rental value to inter-entity leases using cost to lessor) versus par 33 of the proposed TR (imputing rent to free rent periods based on market rent charged on similar space/asset otherwise).

**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.

- While we appreciate the intended purpose of Par. 13, we believe the scenario provided can be improved to provide additional focus on variable payments (which appear to be a focal

point of the response). Further note that the lessor side of the guidance (SFFAS par 56.c and 57) should be added to guidance provided.

**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.

- We feel it is important to provide clear guidance regarding the treatment of sale-leaseback transactions. We do not feel that the guidance is particularly helpful to really answer the applicability of the sale-leaseback as short-term leases. The guidance does address the applicability of the transaction with the public. We feel the proposed guidance under paragraph 95 should be improved to provide more detailed guidance on the determination of the sale and the applicable disclosures required.

**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.

- We feel the proposed guidance under paragraph 98 is potentially applicable to intragovernmental lease-leaseback transactions. We believe that detailed scenario guidance will be helpful to explain intragovernmental transactions. The scenario described under paragraph 98 is helpful to explain the relationship between a contractor and an agency, but the guidance should be expanded to provide more guidance in an intragovernmental relationship for a lease-leaseback transaction.

AGA's Corporate Partner Advisory Group's (CPAG) accounting and auditing members, with extensive government accounting expertise, appreciate the opportunity to provide input for consideration. The views in this document do not necessarily represent those of AGA and the local AGA chapters, and we have encouraged individual members to also comment separately. If there are any questions regarding the comments in this letter, please contact me at 703-684-6931, ext. 312.

Sincerely,



Ann M. Ebberts  
CEO, AGA