

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.”**

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

**Yes, GSA does support the majority of the proposed Statement and TR proposals, however we have identified numerous issues that we request be further addressed and clarified that we are submitting in this document for the Board’s consideration. In addition, there are several issues we have identified in our response to QFR 3 that were not included in this current Omnibus and TR, and we request additional guidance. Third, we are very much interested in seeing illustrative guidance with suggested debit and credit impacts and recommend submission of draft materials for Agency review, as soon as possible. As always, GSA is willing to assist in any aspect of the lease standard that is needed by the FASAB.**

**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.

**Yes, given the length of our responses, please see the section below- GSA**

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**comments on specific paragraphs of the proposed Statement and TR immediately follows the answers to the QFR and SMC questions.**

**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.

**GSA has identified 7 topic areas that we have identified implementation issues that remain ambiguous or would cause challenges:**

**1. Rent Concessions/Incentives for Intergovernmental**

The definition provided in SFFAS 54 paragraphs 9 and 10 define lease incentives and concessions as inducements a lessor provides a lessee to sign a lease. When we consider intragovernmental leases, GSA frequently receives incentives and concessions (free/discounted rent periods and broker commission credits) from non-Fed lessors that we pass along via pricing in subleasing agreements with our Federal tenants. SFFAS 54 paragraph 87, *“the federal entity that is the original lessee and becomes the lessor in the sublease should account for the original lease and the sublease as two separate transactions, as a lessee and a lessor, respectively.”* **When such rent reductions are passed along, they are not provided to entice our Federal customer to sign their lease (occupancy agreement). Accordingly, we believe the pass-through of such credits would be recognized as a rent increases/decreases in accordance with the SFFAS 54 paragraph 31, reworded via the proposed Omnibus change to, “Rental increases or rental decreases that are not lease concessions should be recognized in the period of the increase/decrease.”**

**Our conclusion is consistent with language found in TR paragraph 33, (related to short-term leases) which indicates that, “In the absence of significant evidence to the contrary, lessees would not treat rent increases/decreases as lease concessions.” Further, in the answer to the question posed in TR paragraph 37, included is language stating, “Although years 6-10 meet the definition of reduced rent when compared to years 1-5, the reporting entities would also need to have knowledge that the reduction was made by the lessor to induce the lessee to sign in order to treat the rent decrease as a lease concession.”**

**However, TR paragraph 38 seems to add additional complexity and increased inconsistency to such determinations where it indicates, “Absent economic / pricing indicators or other significant evidence that there are lease concessions in the contract or agreement, it is appropriate that contracts or agreements similar to this example be treated as rent increases rather than lease concessions,” as if economic/pricing indicators should govern when an increase or decrease is to be treated as a lease incentive/concession. This added consideration of economic variables would appear to create ambiguity and create further challenges to implement the standard on a consistent basis.**

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GSA does not consider broker commission credits a lease concession as an enticement to sign the lease, but rather Brokers are used in GSA's lease business as a normal part of the process to assist with awarding leases timely. Since SFFAS 54, paragraph 10 includes commission credits' as a lease concession, it further supports our argument that such concessions should not be applicable to intergovernmental accounting.

Other matters we considered related to intragovernmental lease incentives and concessions, include impacts on matching of rent expense we incur as a result of non-Fed leases versus Intragovernmental revenues. GSA leases, as a lessee, with non-Federal entities normally are long-term and require asset and liability recognition, with the lease expenses being generated by the amortization of the asset and interest expense over the lease term. Any such lease concessions will be included in the present value calculations and recognized as reduced/increased lease payments in the period provided. Application of rent revenue recognition in accordance with SFFAS 54 paragraph 31 would most impact the initial periods of a lease when decreased rents are passed along to Federal customers. This would result in marginally higher expense than revenue in early periods of a lease, with these conditions reversed for the later, majority of the lease term.

Conversely, if the intragovernmental reductions were amortized in accordance with SFFAS 54 paragraphs 32 and 33 as rent incentives/commissions, there would be increased complexity and burden in the intragovernmental record-keeping to ensure the Federal entities maintain matching unamortized assets/liabilities and matching expense/revenue amortization from period to period to ensure such balances are properly eliminated in the government-wide financial statements prepared by the Department of Treasury. Significant intragovernmental differences exist today, under current accounting treatments that have proven very difficult to address when amortization of non-level rents is required.

## 2. Interest Rates for Lessors - Outleases (Omnibus Q18)

As a lessor, GSA's lease contracts with non-federal entities generally do not include a factor for interest rates, but rather the terms are a negotiated amount per month, typically commercial market equivalent rents. Per SFFAS 54 paragraph 59 indicates that lessors are to use the interest rates charged the lessee and that lessors are not required to compute implicit rates for purposes of present value calculations and discounting of payments. Based on this paragraph 59 and GSA's pricing mechanisms, we would determine the interest rate to be 0%, which effectively removes any present value adjustments and discounting of cash flows as a lease receivable is liquidated. In discussions between GSA and the FASAB implementation team, there were different opinions regarding the proper interpretation of this paragraph 59, with questioning of GSA's interpretation of par. 59 (including updates proposed in paragraph 18 of the Omnibus statement). The proposed omnibus 18 remains unclear that imputing an interest rate is required in instances of contracts that clearly have zero interest charged. If GSA's interpretation is correct, then we propose a TR Q&A that clearly explains the requirement and indicates that lease measurement could exist where the interest rate is 0% for calculating a lease receivable and liability. If GSA is not correctly interpreting paragraph 59, we request additional clarity be added to the Omnibus on how measurement is impacted for leases with zero interest charged.

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### **3. Omnibus adjustments needed for SFFAS 54 paragraphs 80-86 (TR paragraph 86)**

Please also see our comments in QFR2 related to TR paragraph 86.

If lease measurement itself is not to be reassessed for leases that are initially short-term leases but are then modified to have lease terms greater than 24 months (or vice versa), we believe clarity should be provided in the standard via an Omnibus update to make clear what impact a change in the lease term caused by a modification should have (other than discussed in SFFAS 54 paragraph 21). The following are examples where the proper accounting treatment for a change in a lease term is not clear based on SFFAS 54 and this TR.

- 1) An initial lease contract is written for a 24 month term and after 18 months, is modified to add 6 additional months. As a result, the amended total lease term is 30 months, yet only 12 months remain. The response to the TR paragraph 28 indicates that reassessments should be based on the entire lease term. Would this now be considered a long-term lease for which paragraphs 80-86 apply, with only 12 months remaining? Would the answer change if the lease modification extended the lease by an additional 30 months?
- 2) SFFAS 54 paragraphs 85 and 86 appear to apply to leases that are initially long-term, for which a lease asset and liability were created and then require adjustment to the asset and liability values based on modifications to a lease term. These paragraphs are silent regarding treatment where the change to a lease term has the effect of changing the classification of a lease (i.e. short-term vs long-term).
- 3) An initial lease for 36 months is modified in month 18 to shorten the term to 24 months (6 months remaining). Is the entire lease term used to reassess the lease as a short-term lease, or simply apply SFFAS 54 paragraphs 85-86 to reassess the remaining value of the lease asset and liability?

We request Omnibus changes to SFFAS 54 paragraphs 80-86 be considered to provide clarity in support of such examples.

### **4. Sale Leasebacks -**

Paragraph 89 of SFFAS 54 indicates that intragovernmental transactions that are effectively sale-leasebacks will require unique treatment, in accordance with guidance in SFFAS 7. Paragraph 89 states that, "A sale-leaseback transaction that does not include a transaction that qualifies as a sale should be accounted for as a borrowing by both the seller-lessee and the buyer-lessor." Further guidance and direction is needed on this topic to indicate how such borrowings are to be measured. Since measurement of lease assets and liabilities is only prescribed by SFFAS 54, it is unclear what if any of the variables included for leases (such as in paragraphs 21 and 29) are applicable to borrowings.

### **5. Leases with transfer of ownership -**

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**SFFAS paragraph 25 prescribes that assets that will transfer ownership at the end of a lease are to be treated by lessees in accordance with SFFAS 6 as purchases of PP&E, rather than treatment as leases and the requirements of SFFAS 54. We are concerned that the normal application of SFFAS 6 is for assets where a purchase price is known. With leases, it is not always the case that a purchase price is known, but can be derived based on payment terms. Further, SFFAS 6 is silent regarding measurement of such asset values, comparable to guidance included in SFFAS 54 paragraphs 40 and 49, where the present values of payment streams are used, with adjustments made for incentives/concessions in those calculations. Given that SFFAS 6 is silent in these respects, we request further guidance be included with the proposed Omnibus Statement to provide the basis for measuring assets when an outright purchase price for this type of leased asset is not known, or provide the appropriate references to accounting standards or guidance where this issue is addressed.**

**Also, in instances where a purchase price is known and can be used for asset measurement, SFFAS 54 also rescinds sections of SFFAS 5 where the measurement of lease liabilities was prescribed, including where a lease included a transfer of asset ownership at the end. Accordingly, it is unclear what standard is to be applied in measuring the liabilities when a lease indicates the underlying asset will transfer ownership at the end of the lease term. The use of present value based measurement and application of the interest method to liquidate these lease-related liabilities is seemingly only evident in the requirements of SFFAS 54.**

**Further, paragraph 25 of SFFAS 54 indicates lessors would treat such lease agreements as financed sales. It is unclear where Federal entities would find requirements for measurement of such lessor transactions and request this be further addressed as an Omnibus update or via a TR Q&A on the topic.**

**Another issue regarding paragraph 25 of SFFAS 54 became apparent in discussions with the team who assisted development of the AAPC implementation guide. While the wording of this paragraph specifically indicates application is limited to leases that will transfer ownership at the end of the lease, some team members had interpreted this more broadly to include leases that include an option to purchase, where the option was considered probable of occurring. Given that the wording was subject to misinterpretation, we suggest either an additional Q&A be added to the TR to clarify this point, or that the Omnibus Statement also include additional wording in SFFAS 54 paragraph 25 to clarify that only leases stating the asset will be transferred, excluding leases with the option of purchase, are to follow treatment in accordance with SFFAS 6.**

**6. Suggested Omnibus update for SFFAS 54 paragraph 32 -**

**This paragraph uses the term “deferred revenues” for the recognition of lease incentives received from a lessor. Since these amounts are not related to revenue recognition and will ultimately be amortized as expenses, we suggest changing the term to either “deferred expenses” or “deferred liabilities” to ensure such amounts are distinguishable in accounting records from deferred revenue amounts.**



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**7. Interagency Agreements (IAs) for tenant improvements.**

There are numerous accounting issues not addressed in SFFAS 54 related to intragovernmental leasehold improvement transactions. For instance where GSA is the landlord for other Federal agencies, IA's, (known as Reimbursable Work Authorizations (RWA)), are used as the ordering and agreement mechanism, apart from rental Occupancy Agreements, when GSA's Federal customers fund leasehold improvements. These improvements can be to buildings owned by GSA or subleased by GSA. GSA has discussed this topic with members of the FASAB staff and we understand issues have been referred to the Board as topics requiring further attention.

As an example, SFFAS 54 intragovernmental leases paragraph 34 is silent regarding lessor accounting treatment of reimbursements received from a lessee for leasehold improvements. The underlying considerations are more complex where subleasing is involved.

Additionally, there is an outstanding interagency dispute between GSA and multiple other federal entities over proper accounting treatment for customer/tenant RWA funded leasehold improvements. There were several issues involved in that dispute where further clarity in FASAB leasing standards are needed to reach resolution.

This is a significant issue for GSA as well as our Federal tenant customers that are not addressed in the current SFFAS 54, the TR, or this Omnibus. We request attention be given to clarify the standards in these areas to ensure entities have sufficient time to implement any further changes with the rest of SFFAS 54 requirements.

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

Other than where GSA has provided comments for consideration in QFR 2 and QFR 3, we agree with the proposed answers to the other questions in the TR and with changes proposed in the Omnibus statement.

**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.

Yes this issue is applicable to both non-federal leases as well as intragov leases, where the rent may not be equivalent to market rates, however this occurs in few instances. Regarding the portion of the answer related to intragovernmental transactions, GSA expects that the impact of SFFAS 55 will reduce the occurrences that inter-entity transactions will need to be recorded by lessees for full-cost to be recognized.

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**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.

**GSA recommends that clarity be added to the answer in paragraph 13 that the lessee and lessor should segregate components of the lease payments, that while fixed or fixed-in-substance, are discernible to be related to the value of natural resources extracted as output (oil/gas) rather than the value of the right to make operational use of the land. We believe such value of the natural resources extracted should be excluded from the measurements of lease assets, liabilities, expenses, revenues, etc.)**

**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.

**While GSA expects the occurrence of intragovernmental sale-leasebacks to be very rare, they have occurred in the past. As we indicated in our response to the TR paragraph 95, GSA requests additional clarity regarding disclosure requirements for intragovernmental sale-leasebacks treated as borrowings. While the accounting treatment is as a borrowing, do the SFFAS 54 lease disclosure requirements still apply or do such arrangements qualify for other disclosure related to borrowings (and if so please provide reference to such requirements). Please also see our comments in QFR 3 regarding issues with the accounting treatment prescribed in SFFAS 54 paragraph 89 on intragovernmental sale-leasebacks.**

**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 are not aware of instances of intragovernmental lease-leasebacks and expect they would be very rare. Please also see our general comments regarding the TR paragraph 98 in responses to QFR 2. GSA expects the accounting treatment for non-fed lease-leaseback transactions in accordance with SFFAS 54 to be quite complex. This topic would greatly benefit from an illustration of debits and credits that would be applied by entities to ensure proper understanding.**

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## **QFR 2 - GSA comments on specific paragraphs of the proposed Statement and TR**

**Our comments on the TR paragraphs are as follows:**

**Paragraph 5 - GSA Comment:** Since SFFAS 54 had no discussion of leases with uninterrupted control, we are concerned with this answer and believe further clarity is needed via the Omnibus or other FASAB pronouncements to specifically address considerations to be applied when control is not continuous over the lease term. This question and answer leaves a number of issues unaddressed in determining proper treatment for both lessees and lessors. For instance, with contracts over 24 months with breaks in control, as a lessee, are lease asset costs amortized during periods the asset is not in-use? And if no payments are due during periods with a break in control, what would be the proper present value calculation treatment of interest expense for payment amortization schedules during months of non-payment? SFFAS 54 also makes no distinction regarding calculating lease terms where there is interrupted control. Extending the given question and answer, if the contract was for 3 years, it would seemingly require long-term RTU lease asset and liability accounting even though the asset is only used for a total of 12 months (4 months per year). In such circumstances, it would seem unreasonable that a contract length (applied via SFFAS 54 paragraphs 14 and 15), rather than the actual period an asset is made available for use would be the appropriate factor for determining accounting treatment. Even with longer contract lengths, having interrupted control, such as given with this question, does not seem to fit comparably to financed asset acquisitions as discussed in SFFAS 54 paragraph A43, and the use of present value calculations for liability recognition. A requirement to maintain manual recordkeeping and transaction processes for such unusual conditions would seemingly require additional burden on agencies that is unnecessarily complex without providing significant benefit to financial reporting. We suggest leases with interrupted control, such as in this example, be treated in accordance with the lease accounting requirements of short-term leases.

**Paragraph 6 - GSA Comment:** We are very concerned that this answer regarding easements creates a significant stretch of the definition of a lease that is not supported by the requirements in SFFAS 54. The impact is more clearly seen via the applicability further detailed in the ED paragraphs 8, 10, and 12, where examples of easements are further discussed. We believe opening the definition of leases to include easements would warrant additional clarity in the FASAB Standards via the Omnibus or other pronouncements. Without further clarity in Standards, we are concerned with the extent of vagueness in current requirements, and as a result, interpreting and applying the accounting requirements to such contracts will likely lead to inconsistent application by financial statement preparers and risk conflicting interpretations by auditors.

With easements the concepts surrounding use and control of an underlying asset, and the ability to control the benefits of an underlying asset are applied in a very narrow context. With easements, only a portion of an asset's range of benefits is being granted. As an example, rights-of-way generally only grant the ability to traverse across a particular part of land, or with air-rights, the ability to cross above the land. In such instances the benefits being provided via the easement are very limited and it is less clear that a lessee has control over an underlying asset (the land). In both parts of the Q&A in ED paragraph 8, which are deemed to be leases,



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the examples clearly identify land as being multi-use, with the landowner seemingly maintaining substantial control over how and when the various asset benefits are used by multiple entities for their different purposes. SFFAS 54 paragraphs 2 and 3 seem to imply a lease would entail much greater exclusive-use of an asset, where a lessee has control of the underlying asset itself and its benefits (clearly plural), rather than a particular benefit that an asset can provide. The concept of granting limited rights to, and benefits from, an asset appears inconsistent with required accounting treatment for leases that exceed 24 months, where the asset and liability recognition is likened to the financing of an asset purchase - where the entirety of an asset's benefits are obtained. We believe the Board should revisit requirements that lead to the conclusions herein, of creating lease assets and liabilities where a contract provides only select and limited benefits of an underlying asset. We do not believe such contracts should meet the definition of a lease. Further, it would seem unnecessarily burdensome that reporting entities would need to comply with the requirements where long-term leases require asset and liability recognition, when a lessee's access and control over an underlying asset and its benefits are limited to select benefits.

**Paragraph 8.a - GSA Comment:** In conjunction with the concerns raised previously with the Q&A in paragraph 6 of the ED, this example raises questions as to what is really defined as the "underlying asset" and the control and benefits obtained when applying SFFAS 54 paragraphs 2 and 3. In this instance, it appears the underlying assets are limited to the very particular measurement of a parcel at a specific depth, height and width that the pipeline will consume, but none of the rest of the associated land above, below, or around it. The control and benefits granted seem exceptionally limited. One could easily imagine a small strip of land where multiple entities are granted easements, such as utility easements, allowing water and gas pipelines, power and fiber optic cabling, all covered with a road where rights-of-way could be granted to multiple users. While as a lessee, an entity is acquiring a benefit of the land, it doesn't seem to be obtaining rights and control over the land with the normally associated range of benefits.

**Paragraph 8.b.- GSA Comment:** Similar to the response above to part a. of this paragraph and the additional comments provided regarding paragraph 6 of this ED, this Q&A further raises concerns with a lack of clarity in applying the requirements of SFFAS 54 paragraphs 2 and 3. In this instance, the contract basically provides the right for livestock to traverse the land in support of the more significant right to consume a side-benefit of land - replenishable natural resources (grasses, water). Given that the lands in this example are used for multiple purposes, a lessee's rights to control access and benefits of grazing seem very limited to the volume of livestock allowed to enter and consume the natural resources.

**Paragraph 10 - GSA Comment:** This question and answer are further examples of expanding the definitions to be applied for determining what can be defined as an underlying asset when applying SFFAS 54 paragraphs 2 and 3. In this instance, the underlying asset is not necessarily the land on which a cell tower is constructed, or a cell tower itself, but can be one of many connection points on a cell tower. Given the broad interpretations provided here, it would be preferred for the Omnibus SFFAS 54 changes or other FASAB pronouncement be used to provide such clarity rather than via a TR.

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**Paragraph 11 - GSA Comment:** Since the answer to this question is not taken from language in SFFAS 54, we recommend that Omnibus changes to SFFAS 54 or other FASAB pronouncement specifically state when a contractual right of substitution by a lessor does and does not affect the evaluation of a lessee's control of the right to use an underlying asset. Along with a discussion of impacts of rights of substitution, standards should also address defining the related terms such as, "an essentially identical asset" cited in this answer, as that could be considered from different perspectives, such as comparability of benefits/services, or financial value, or physical comparability and capacity. For instance if a fax machine were replaced by a multi-use fax/copier/scanner but the lessee only needed the equipment for faxing purposes, is the replacement essentially identical? Alternatively if a lessor of office space in a building needs to find replacement space for a lessee due to flooding, etc., would "essentially identical" space include an equal amount and quality of office space in a building nearby?

**Paragraph 12 - GSA Comment:** Similar to our response to the Q&A in the ED paragraph 10, we recommend additional formal FASAB pronouncements make clear the definition of "underlying assets" to cover seemingly small components of an asset, like a connection point on a communication tower/pole. While a lessee can obtain benefits from the connection points, it is less clear that a connection point is an underlying asset rather than the pole (being the piece of equipment). Especially with this example that a lessor has control over the connection point on the pole and can relocate a lessee's antenna to another location on the pole seems like a significant restriction on a lessee's control over the use or right to control benefits of a particular connection point. Depending on the type of communication signals being used, location on a pole could have a significant impact on the benefit a lessee could obtain.

**Paragraph 13 - GSA Comment:** We recommend that clarity be added to this answer that the lessee and lessor should segregate components of the lease payments, that while fixed or fixed-in-substance, are discernable to be related to the value of natural resources extracted as output (oil/gas) rather than the value of the right to make operational use of the land. We believe such value of the natural resources extracted should be excluded from the measurements of lease assets, liabilities, expenses, revenues, etc.)

**Paragraph 14 - GSA Comment:** GSA would like further discussion around proper accounting treatment for RWA and sublease transactions in accordance with SFFAS 54, paragraphs 87& 88. Specifically, GSA requests guidance as it relates to build-out of leases that are funded by GSA's customers/sublease. This is an area that has a significant impact to GSA's financial reporting as well as other federal agencies with well over \$1billion annual in such tenant leasehold improvement build-out.

**Paragraph 28 - GSA Comment:** Paragraph 20, states '*...the lessee should not measure the lease retroactively...*' This paragraph 28 seems to be inconsistent with the earlier direction, or rather this explanation may need clarity as it relates to certain scenarios, or only related to implementation of SFFAS 54.

This question and answer lack clarity regarding which requirements in SFFAS 54 are being applied that such considerations would occur. Further, the use of the word "consider" in this paragraph is overly vague, as it provides no guidance to identify the perspectives for which considerations are made or impacts the considerations have on accounting treatment when

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lease terms change. There are multiple situations that may lead to reassessments of lease terms and subsequent revaluation of leases.

For instance, it is unclear whether the answer is intended to be covering reassessments related to classification of leases as being short-term vs long-term, or remeasurement of leases when a lease term changes. We believe the accounting treatment may vary depending on the circumstances and not always result in changes retro-active for the whole lease term. The requirements of SFFAS 54 paragraphs 80-86 for lease modifications require reductions in the lease term to be accounted for as partial terminations, with remeasurement of the lease liability (lessee) or lease receivable (lessors) based on the remaining period of the lease. These requirements do not indicate that an amended total lease term be revisited. Accordingly, as a lessee, it appears that an entity would not consider a reduction in a total lease term from 36 months to 24 months to require retroactive adjustments to reverse lease asset and liability balances to switch accounting treatment to normal requirements for a short-term lease.

Also, the Q&A in the ED TR para 20, further identified an instance creating an exception when language in a lease (defining the start of the lease to occur prior to signing of the lease) should not be considered when determining the lease term. Also see our response to the ED TR paragraph 33, related to reassessing lease terms. Given these concerns, we believe the answer to this question should be expanded to discuss variables that can impact reassessing the lease term and how they impact accounting treatment. Please also see the related response to TR paragraph 86.

**Paragraph 32 - GSA Comment:** In applying the guidance provided for by the ED TR paragraph 28, while the reassessed total lease term may be 36 months it is not clear that the whole 36 months would be used from the perspective of calculating the accounting changes required. SFFAS 54 is silent regarding whether a change from a short-term lease to long-term accounting treatment should be applied retroactively or prospectively.

SFFAS 54 paragraphs 85 and 86 indicate that modifications shortening the term of a lease would not result in retroactive changes when a revised total lease term results in a lease changing from long-term to short-term. Instead reductions in a lease term are treated as partial terminations, with remeasurement of the lease liability/receivable prospectively. Comparatively, we would have assumed that for an increase in a lease term provided in this Q&A, applying remeasurement would not require retroactive adjustments, and the lease asset/receivable would be calculated as if the lease became a long-term lease as of the date of the modification and calculated based on payments due over the remaining period of the lease. In application, we would interpret this lease change to become effective in the 6th month of the original lease, and would reassess the lease term and conclude this is a 30 month term (original 24 months - 6 months past + 12 month option = 30 months). Implementing the change after month 6 we would then record the right to use asset value for the present value of the lease payments for the prospective 30 month term. We would not have assumed that retroactive reversal of the short-term accounting treatment is required for amounts recognized in the first six months. The ED Q&A in paragraph 20 also provides an exception where retroactive reassessment for the lease term is not appropriate. Given the different conclusions that could be reached here, we believe it would be beneficial to have the Omnibus clarify issues related to when retroactive adjustments are required.

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**Paragraph 33 - GSA Comment:** We find the 5th sentence of the answer somewhat confusing and suggest re-wording of this sentence to, *“If the lower payments in months 1-12 are determined to meet the definition of a lease concession to entice the lessee to sign, the sum of the entire lease payment stream should be recognized as expense on a straight-line basis over the lease term (see SFFAS 54, par. 10 and 23).”*

**Paragraph 36 - GSA Comment:** For clarity, we suggest rewording of the last sentence of the answer to, *“In substance, the option to terminate should be treated effectively as a contract with a purchase option rather than an ownership transfer.”*

**Paragraph 42. GSA Comment:** Please clarify if for lessors, the requirements from paragraph 88 to disclose sublease agreements includes the need to separately present amounts shown for each of the 5 subsequent fiscal years and in the 5-year increments that relate to subleases.

**Paragraph 54 - GSA Comment:** We suggest the answer to the question be expanded to achieve greater clarity. We are concerned that the wording in the first sentence of the question of, “payments related to a building lease” is broad, and creates multiple answers, more than just the one given, depending on the purpose of the payment. We do concur with the answer or instances where the payments are simply advance rental payments. However, if the payments were for the cost of leasehold improvements (such as tenant buildout), we would not agree with the part of the answer that indicates that the cost would be reclassified as part of the initial measurement of the asset upon lease commencement. We had interpreted SFFAS 54 to require segregation in reporting the cost of leasehold improvements from the initial lease asset measurement. Leasehold improvements also have somewhat different requirements for amortization per SFFAS 54 paragraph 34. It is also unclear whether payments made prior to lease commencement that are for leasehold improvements should be accounted for as advances, vs construction work-in-process (CWIP) accounts that exist today based on requirements of SFFAS 6. While the proposed Omnibus changes to SFFAS 6 may remove leasehold improvements from reporting of PP&E, it is not clear whether payments prior to lease commencement would no longer be treated as capitalized assets (such as CWIP) and now be treated as advances as this answer implies. We believe there could be other payments required prior to lease commencement, such as for initial direct costs that should be excluded from the initial measurement of the lease per SFFAS 54 paragraph 36.

**Paragraph 56 - GSA Comment:** Additional clarity is needed to note that SFFAS 54 paragraph 50 requires amortization of lease assets for land if there is not an option to purchase that is deemed probable. However once the determination that exercising an option is deemed probable, amortization of the RTU lease asset is to cease for leases of land.

**Paragraph 57 - GSA Comment:** In accordance with SFFAS 54, paragraph 50 would require all lease assets of equipment to be amortized. Accordingly, we suggest re-wording the facts in this question to remove the text ***‘because it is not probable that it will purchase the equipment.’*** The amortization of leased equipment is not exempted by the existence of a probable purchase option. Inclusion of this wording in the question implies that purchase options have some bearing on amortization. Only leases of land, discussed in para. 51, have unique amortization if a purchase option is considered probable of being exercised, which is not applicable to this question.

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**Paragraph 66 - GSA Comment:** Please clarify the condition in the question that variable payment meets the criteria for recognition, but would not be included in the lease receivable. We believe it would depend on what criteria has changed. SFFAS 54 Paragraph 61.c discusses changes in criteria where a lease would have to be remeasured. We only agree with this answer where the conditions/criteria now being met are simply that a current variable payment or residual guarantee becomes due, with no long term impact on required/fixed future payments.

**Paragraph 69 - GSA Comment:** It is confusing that the answer includes discussion of interest revenue. We believe Interest revenue should be earned in accordance with SFFAS 54 paragraph 60, related to the discounting of receivables and the passage of time between payments, while paragraph 64 requires earning of lease revenues (earning the deferred) via a systematic and rational method (such as the straight-line method). Accordingly, we suggest either removing the wording, "including interest revenue," from the answer, or expanding the answer to reference the paragraphs that prescribe the different process for recognition of interest revenue vs deferred revenue.

**Paragraph 86 - GSA Comment:** We believe the answer to this question may be overly simplistic and could be impacted by final wording used in the proposed change defined in the Omnibus section, paragraph 5 (amending SFFAS 54 para. 21). It is not clear why the requirements of SFFAS 54 paragraphs 80, 81 and 84 would not apply to modifications of short-term and intragovernmental leases. Both short-term and intragovernmental leases could have lease modifications that shorten or lengthen the term, that we believe should impact the amortization period applied to items such as leasehold improvements, or remaining balances of unamortized lease concessions. Further, if lease measurement itself is not to be reassessed for leases that are initially short-term leases but then modified to have lease terms greater than 24 months (or vice versa), we believe clarity should be provided in the standard via an Omnibus update to make clear what impact a change in the lease term caused by a modification should have (other than discussed in SFFAS 54 paragraph 21). Also reference our comments in QFR #3, regarding these paragraphs 80-86.

**Paragraph 94 - GSA Comment:** While we agree with the response that the example is not a sale leaseback, it is unclear how a rent concession that would be recorded as part of the consideration from the sale would not impact the initial recording of a lease, as stated in the third sentence of the answer. Since a rent concession normally does impact initial measurement, an entity would need to exclude concessions from its lease calculations that are otherwise required by SFFAS 54 (i.e. paragraphs 41 and 49 for lessees). Presuming the lease is longer than 24 months and non-intragovernmental, if the concession was in the form of periods with discounted or free rent, a seller/lessee entity would seemingly need to gross-up the amounts used for calculating its lease asset and liability to add back concession credits, as if payments were being made at an unadjusted (for concessions) amount. Presumably the selling entity would also create a sales receivable/revenue for the amount of the concession, and then in the months the concession credits are received, record offsetting collections and payments to liquidate the sales receivable and grossed-up lease liability. Such examples would benefit greatly from illustrative guidance of the underlying debits and credits the entities would record.



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**Paragraph 95 - GSA Comment:** We request additional clarity regarding disclosure requirements for intragovernmental sale-leasebacks treated as borrowings. While the accounting treatment is as a borrowing, do the SFFAS 54 lease disclosure requirements still apply or do such arrangements qualify for other disclosure related to borrowings (and if so please provide reference to such requirements).

**Paragraph 96 - GSA Comment:** We request additional discussion be added for this and the following question to provide clarity regarding SFFAS 54 paragraph 93 requirements to both treat lease-leasebacks as net transactions, yet also to disclose the lease and leasebacks separately. The separate disclosure would appear to create inconsistencies in total amounts disclosed as lessee/lessor activity when compared to the asset/liability balances carried for such leases. Since the disclosure requires separate reporting, it seems contradictory that the accounting treatment requires recording of the net transactions. Clarity is requested to indicate whether an entity would be expected to maintain its records as if the leases were independent and then record financial statement adjustments to offset/net the assets, liabilities, revenues and expenses that the components produce.

**Paragraph 97 - GSA Comments:** Please refer to the related comments to TR paragraph 96. The reporting entity would need to separately identify the transactions in the accounting system in order to disclose, however the recording of the transaction requires netting. This will likely be very difficult and burdensome to record net transactions.

**Paragraph 98 - GSA Comments:** GSA expects the accounting treatment for non-fed lease-leaseback transactions in accordance with SFFAS 54 to be quite complex. This topic would greatly benefit from an illustration of debits and credits that would be applied by entities to ensure proper understanding.

**Paragraph 101 - GSA Comment:** The answer is not complete, as the difference between the capital asset and capital lease liability at the implementation date of SFFAS54 would also require recording of \$9,600 difference between the old and new carrying value as an adjustment to Cumulative Results of Operations for the change in accounting principle.

**Paragraph 102 - .GSA Comment:** This answer needs to address the proper accounting when such a capital lease was created for leases that transfer ownership at the end, where SFFAS 54 paragraph 25 is now applied. It is unclear what values would be reclassified as owned assets and non-lease liabilities for such leases (original values or recalculated per SFFAS 54 paragraphs 41 and 49). The answer is also not complete for leases with a purchase option that is deemed probable of being exercised.

## **GSA COMMENTS ON OMNIBUS AMENDMENTS**

**Paragraph 14 - GSA Comment:** SFFAS 44 is applicable to G-PPE, and with the change to SFFAS 6 via this Omnibus Statement, leased assets (of lessees) are not considered G-PPE. If SFFAS 44 requirements are intended to be applied to a lessees leased assets, we recommend that SFFAS 44 be amended to clearly state RTU leased assets are subject to recognition of Impairment.

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**Paragraph 18 - GSA Comments:** As the lessor GSA's lease contracts with non-federal entities do not include an interest rate, but rather the terms are a negotiated amount per month, typically commercial market equivalent rents. This change in the omnibus is not clear that imputing an interest rate is required in instances of contracts that clearly have zero interest charged. Please see the related discussion provided in response to QFR 3 that may result in further changes to this SFFAS 54 paragraph 59.

**Paragraph 25- GSA Comment:** This revision from the previous FASAB position expressed in SFFAS 57, to now move lease assets out of the PP&E category has pros and cons. While leases do not provide ownership interests as do traditional purchases of PP&E, their underlying purpose for a lessee is to acquire use of PP&E and the ability to obtain its benefits. Similarly leasehold improvements reflect the cost of tangible assets that an entity pays for and obtains use of, but does not own. We do also support a clear distinction in the financial presentation of lease assets (and lease liabilities) from other PP&E, given their unique nature and difference in measurement. We believe such distinction is preferable to be within the PP&E category, and to retain the existing language in SFFAS 6, as amended by SFFAS 57. However, we also do not have a strong objection to this proposed Omnibus change to remove leased assets from PP&E reporting, and into separate presentation on the Balance Sheet, given the very unique measurement/valuation requirements that are not comparable to traditional PP&E.

We would assume that the lease contracts for assets that will transfer ownership of the asset at the end of the lease, and covered by requirements of SFFAS 54 paragraph 25 are to remain reported as PP&E. Accordingly, we believe such assets should remain defined within SFFAS 6 paragraph 18 as a component of PP&E.

**Paragraph 26 - GSA Comment:** Please refer to the interrelated discussion above for the changes proposed in ED paragraph 25. If this proposed change is retained in the final Omnibus standard, we believe more clarity is needed indicate that the excluded lease assets are those created other than via lease contracts that will transfer ownership as discussed in paragraph 25 of SFFAS 54, as such contracts meet the definition of a lease, but are to be accounted for as PP&E purchases.