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February 4, 2021

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

**RE: Proposed Federal Financial Accounting Technical Release, *Implementation Guidance for Leases* and Proposed Statement of Federal Financial Accounting Standards, *Omnibus Amendments to Leases-Related Topics***

Dear Ms. Valentine:

We appreciate the opportunity to respond to the joint exposure draft (ED) of proposed Federal Financial Accounting Technical Release, *Implementation Guidance for Leases* (proposed TR), and proposed Statement of Federal Financial Accounting Standards (SFFAS), *Omnibus Amendments to Leases-Related Topics* (proposed Statement). We support the efforts to clarify SFFAS 54 and provide guidance to assist reporting entities in implementing it.

We believe some of the proposed requirements in the ED would be more appropriately included in the body of SFFAS 54 given that they are foundational aspects of the lease accounting model. Specifically:

- The proposed Statement adds footnote 2A to paragraph 5 of SFFAS 54. Footnote 2A provides requirements for the accounting for payments prior to commencement of the lease term. We believe this requirement should be provided in a separate paragraph in SFFAS 54 rather than a footnote.
- We suggest including the definition of "annual lease expense" in SFFAS 54 rather than in the answer to question 16 of the proposed TR.
- We suggest including the additional factors to consider in determining whether a renewal option is probable of being exercised in paragraph 20 of SFFAS 54 rather than in the answer to question 25 of the proposed TR.
- We suggest adding the requirement that lease term reassessments consider the entire lease term to SFFAS 54 rather than including it in the answer to question 28 of the proposed TR.
- We suggest adding the requirement that lease receivables be amortized using the interest method to paragraph 60 of SFFAS 54 rather than in the answer to question 67 of the proposed TR.
- SFFAS 54 does not provide guidance when the underlying asset of a lease is either a heritage asset or stewardship land as defined by SFFAS 29, *Heritage Assets and Stewardship Land*. We suggest adding such guidance to SFFAS 54.

We have the following observations and suggestions related to the proposed TR for consideration.

**Question 4**

- The example in the question is a reporting entity that obtains the right to use a building, which has a market rent of \$500,000 per year, for a cost of \$100 per year. However, the answer addresses consideration that is "less than full cost" rather than market rent. Because the example neither indicates that the transaction is intra-governmental nor provides the full cost information related to the building, we suggest that either the question or the answer be revised to provide clearer linkage between the question and the answer.

- The answer to Question 4 states the following:

“...paragraph 2 of SFFAS 54 specifies that a lease is a contract or agreement whereby one entity (lessor) conveys the right to control the use of property, plant, and equipment (PP&E) (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration, *even though the consideration provided is less than full cost.*” (*emphasis added*)

The use of the word “specifies” implies a direct quote from the definition of a lease in paragraph 2 of SFFAS 54. However, that definition does not include “even though the consideration provided is less than full cost”. We suggest revising that sentence as follows (*added text underlined; deleted text struck-through*):

“...paragraph 2 of SFFAS 54 specifies that a lease is a contract or agreement whereby one entity (lessor) conveys the right to control the use of property, plant, and equipment (PP&E) (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration. Under this definition, ~~even though~~ the consideration provided may be ~~is~~ less than full cost.”

#### Question 6

- We believe a permanent easement is, in effect, ownership of a portion of the land that lacks one of the essential characteristics of a lease in paragraph 2 of SFFAS 54 – i.e. it conveys the right to use PP&E for a period of time. As a result, we suggest the board replace “may not” in the third paragraph of the answer with “would not”.

#### Question 13

- We suggest the following changes to the first paragraph of the answer to better aligned the references to the paragraphs of SFFAS 54. (*added text underlined; deleted text struck-through*)

“The lease liability would include all variable payments that are fixed in-substance in accordance with paragraphs 40.c. ~~and 44~~ of SFFAS 54. However, in accordance with paragraph 41 of SFFAS 54, variable payments that are based on future performance of the lessee or usage of the underlying asset (that is, variable payments based on levels of exploration, development, and production) should not be included in the lease liability.

#### Question 24

- We found both the question and the answer to be confusing. We do not believe the answer can be “Yes to both questions” because the two questions appear to take contradictory positions. We suggest the question and the answer be revised to provide more clarity as to whether an entity can rely upon one predominant factor when making probability assessments.

#### Question 25

- The answer refers to paragraphs 15-20 of SFFAS 54 for identifying factors to assess whether a renewal option is probable of being exercised. However, only paragraph 20 of SFFAS 54 provides examples of factors to consider for renewal options. We recommend that the answer indicate the factors listed are additional factors as they are not the identified factors in paragraph 20.

#### Question 27

- We suggest the first sentence of Question 27 be clarified to state that the option to renew the lease is the lessee's.
- We believe the reference to paragraphs 15 and 17 of SFFAS 54 in the answer should be to paragraphs 15 and 16 because paragraph 17 refers to lessor accounting.
- We suggest changing the word “requirement” in the last sentence of the answer because the preceding sentence about communication is not a requirement in SFFAS 54. Perhaps it could be changed to “approach”

## Questions 33 and 38

- The examples in these questions are very similar, so it may not be necessary to retain both. Regardless of whether both are retained, we believe that a more comprehensive discussion about how to identify possible lease concessions would enhance the answers.
- The first sentence of the answer to Question 38 uses the wording of paragraph 31 of SSFAS 54 prior the changes being proposed in the proposed technical amendments. The wording should be updated to the new wording. With the updated wording, we believe the answer may change to “It depends” based on the need to evaluate for lease concessions.

## Question 49

- We suggest the following changes to the answer to be consistent with the requirement of paragraph 40 of SFFAS 54. (*added text underlined; deleted text struck-through*)

“Paragraph 40.h of SFFAS 54 requires that the lease liability include any other payments to the lessor that are probable of being required based on an assessment of all relevant factors. However, ~~that requirement~~ SFFAS 54 does not ~~permit~~ require the inclusion of payments that are probable of being required from the lessee to parties other than the lessor in the lease liability, ~~nor does it include payments that are not in exchange for the right to use the underlying asset.~~ Such liabilities would be reported separately in accordance with other existing Statements, such as: SFFAS 5, *Accounting for Liabilities of the Federal Government*, standards on liability recognition and measurement and SFFAS 6, *Accounting for Property, Plant, and Equipment*, on cleanup costs. If, however, these payments are deemed probable of being required and would be made to the lessor, inclusion of these payments would be appropriate.

## Question 53

- The answer states that authoritative pronouncements do not provide specific guidance related to a determination of capitalization threshold amounts. However, the answer to goes on to provide such guidance. If specific guidance is appropriate, we suggest including it in SFFAS 6, *Accounting for Property, Plant, and Equipment*.

## Question 63

- The answer states that “40.d and 44.b of SFFAS 54 provide that amounts that are probable of being required to be paid by the lessee under residual value guarantees be included in the measurement of the lease liability.” We suggest removing the reference to 44.b because 44.b indicates when the lessee should remeasure the lease liability and not what should be included in the lease liability.

## Question 64

- The question asks, “What are initial direct lease costs?” However, the answer does not match the definition of initial direct lease costs in paragraph 13 of SFFAS 54. We suggest the answer use the definition of initial direct leases costs as provided in SFFAS 54 and indicate that the other information in the answer describes costs that could be initial direct lease costs.

## Question 95

- We suggest that the second paragraph of the answer be revised because paragraph 89 of SFFAS 54 does not provide the cited guidance for intragovernmental leases.

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or [aenelson@kpmg.com](mailto:aenelson@kpmg.com).

Sincerely,

**KPMG LLP**