

Exposure Draft Questions for Respondents (QFR)

Due: July 8, 2022

Omnibus Amendments: Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-leasebacks

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.

Name: William Harter, MBA
Rosemary Courtney, CPA, MBA

Please identify your organization, if applicable.

Organization:

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

This proposed Statement would address certain ongoing areas of concern related to leases implementation that were not addressed in SFFAS 60, *Omnibus Amendments 2021*, including:

- clarifying the Board's original intent for discounting lease liabilities and receivables, which should result in a more consistent and comparable application of SFFAS 54, *Leases*, requirements; and
- clarifying the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them

QFR 1 Do you agree or disagree with the proposed amendments to address discounting lease liabilities and receivables, as reflected in paragraphs 3-7 (amending par. 42, 47-48, and 59 of SFFAS 54), and the Board's basis for such proposals? Please provide the rationale for your answer.

Visual Lease, LLC. supports the proposed amendments to address discounting lease liabilities and receivables. SFFAS 54's requirement to use an explicit rate is unchanged; if no explicit rate is stated, an equivalent risk-free rate is expected to be utilized. The terminology provided in the proposed amendments is "based on marketable Treasury securities with similar maturity to the end of the lease term," in essence the definition of a risk-free rate.

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Visual Lease, LLC. has observed that in the current private sector implementation of ASC 842, *Leases*, the new lease accounting standard issued by the Financial Accounting Standards Board (FASB), the use of a risk-free rate rather than a higher incremental borrowing rate (IBR) may have resulted in higher liability values (and therefore asset values) on organizations' financial position. Additionally, Visual Lease, LLC. has observed that this effect could trigger debt service covenants and otherwise cause inconsistency in analytical comparability. However, Visual Lease LLC. believes that, while organizations may have to caveat their financing reporting requirements to lenders to highlight these factors in that QFR 1 may result in less accurate and consistent valuation of liabilities, the suggested methodology does reduce complexity and provides user prescriptiveness in ease of use and availability of input data, thereby facilitating compliance.

Additionally, Visual Lease, LLC. observes two impacts regarding valuation of the lease liabilities and assets in practice: the applicability and accuracy of a specific rate to the entity in question, and the timeliness of the application of that rate. Namely,

- the discount rate applied could result in less accurate valuations if the entity has a higher cost of borrowing than the federal government rate.
- private sector administration of ASC 842, *Leases*, has shown that reassessments of incremental borrowing costs can be costly to ascertain and therefore are not necessarily "kept current". In a stable interest rate environment that is not a significant matter, but in an evolving rate environment (such as 2022 is turning out to be), lack of updates can result in more frequent and severe errors that may not consider or sufficiently identify entity-specific risk.

Visual Lease, LLC. notes that the original wording in SFFAS 54 authorizing entities to use rates based on their own borrowing authority is expressly deleted in this exposure draft, removing calculations from actual costs, and resulting in less accurate valuations. Given the transparency of the Treasury Securities market and rate, and its availability to those entities subject to the FASAB (Federal Accounting Standards Advisory Board) standards, Visual Lease LLC. believes that the suggested changes enhance the process of calculation and result in an "always having up to date information available" situation when creating new or remeasurement calculations for lease accounting. Therefore, Visual Lease, LLC. supports the use of risk-free rates.

Additionally, and as a practical matter regarding application of the risk-free rate, the revised guidance allows rounding up or rounding down to the nearest maturity date, or to interpolate between two dates. Extrapolating from the longest term (30 years) would not be permitted. Paragraph 42A references "historical average rates" and appears broad in context and may require further clarification. If it is meant that to approximate a rate if a date specific rate is not available, we believe that in today's internet environment, detailed historical information is easily available so there likely would not be need for this.

QFR 2 Do you agree or disagree with the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraphs 8-9, and the Board's basis for such proposals? Please provide the rationale for your answer.

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Initially, SFFAS 54 was silent regarding sale-leaseback transactions intragovernmental in nature. Visual Lease, LLC. agrees with the proposed amendments to clarify the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and the disclosure requirements applicable to them, as reflected in paragraphs 8-9, and the Board's basis for such proposals as it clarifies the requirements apply both to public sale-leasebacks and intragovernmental sale-leasebacks for disclosure purpose. Visual Lease, LLC supports this provision because, while not prescribing accounting treatment, it does add clarity and transparency to the amount of intragovernmental sale-leaseback for each reporting entity through disclosure.

As a result of our analysis, Visual Lease, LLC. is supportive of both clarifications provided in this exposure draft.
