

*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"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

**Please provide your name**

Name:

**Please identify your organization, if applicable.**

Organization:

*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.*

---

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

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

**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.

The Department of Transportation supports the proposed amendments to discount rate guidelines, however, there are various paragraphs we would like to see clarified and/or enhanced:

Proposed Guidance	Comment
Par 42	<p>The definition of <b>lease term</b> in Paragraphs 14-21 exclude a possible impact of purchase options (explicitly noted in parag. 19 (b)). On the other hand, definition of lease liability for lessee positions includes cash flows associated with probable purchase options. This inconsistency becomes more pervasive with a reference to "lease term" within the guidelines provided for interest rates to be used in the absence of contractually specified rates.</p> <ul style="list-style-type: none"> <li>For lessee positions: In the absence of a contractually specified interest rate, are the Agencies expected to use Treasury rates that are consistent with the term of a lease that is determined without any regards to probable purchase options? For example, for a 10-year lease with a probable purchase option available at the end of Year 5, are lessees expected to use marketable Treasury securities with a 5-year maturity or 10-year base term of lease (assuming no rate is specified per contract)?</li> </ul> <p>We would like to recommend that the Board consider modifying the definition of lease term by including a reference to probable purchase options (applicable to lessees only; lessor treatment of purchase options does follow a different model). Alternatively, Board should consider adjusting proposed Par 42. Language to clarify what rates should be used for lessee positions with probable purchase options.</p>
Par. 42A	<p>Parg. 42A requires that the discount rate be "<b>consistent</b>" with the Treasury rate <b>on the date of initial lease liability recognition</b>. This is a taxing requirement, especially in at times of economic volatility. Compliance with this standard may warrant building of bots to minimize risk of human error, which will come at an additional implementation cost.</p> <p>Par. 42A goes on to allow alternatives, such as use of a historical average or recent Treasury rates, so long as such rates are "<b>consistent</b>" with the rate at the date of initial liability recognition. While we understand the alternatives are intended to introduce lenience, the concept of "<b>consistent</b>" is not defined anywhere in SFFAS or ASC frameworks. In other words, it is unclear how far back federal agencies can go to get a "recent" rate that is "consistent" with the rates as of date of initial lease liability recognition. As such, we do not believe introduction of the alternatives with a threshold of "consistent" brings further clarification to the Agencies or consistency in application of the standard.</p>

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

Proposed Guidance	Comment
	<p>We would recommend that the Board consider one of the following adjustments to proposed guidance:</p> <ul style="list-style-type: none"> <li>A. Remove the requirement that you use the rate “on the date of initial liability recognition”. Such requirement is very precise and leaves the Agencies accountable to auditors for use of very specific dates (especially for those with high volumes of lease transactions, in a volatile economic platform). Instead, provide alternatives to the Agencies with defined parameters. Example, “recent” or “historical average” determined based on Treasury rates issued within the current reporting period.</li> <li>B. Remove references to any alternatives. In areas of management estimates and judgments, it is common practice that Agencies build their alternative methodologies beyond what is explicitly stated in SFFAS (e.g., impairment assessments, fair value estimates, etc.), to the extent such methodologies do not result in material misstatements. Each agency would build their alternatives based on what is practicable in their circumstances and assess whether such alternatives are reasonable for their financial statement users or not. This would (1) avoid limiting agencies to two alternatives, allow them to also consider use of weighted average rates (2) allow them to build a practicable solution that is also acceptable for audit.</li> </ul>
Par. 42B	<p>The range of options allowed within the proposed guidance may result in different rates being used by Agencies, especially considering the volatility of current markets. For example, a 25-year real estate lease with \$20M/annum fixed lease payments may be recorded at a lease liability of \$343M (at 30-year T-rate of 3.14%, as of X date) vs. \$334M (at 20-year T-rate of 3.38%, as of X date). If the intent is to provide flexibility (i.e., such difference is acceptable), we would recommend that the board also consider adding additional alternative allowing use of a <b><i>single rate for all leases held by an Agency</i></b>, that may be determined based on weighted average term of the Agency’s lessee and/or lessor positions. This would render the discount rate determination much more practicable and reduce cost of implementation.</p> <p>Par 42B also notes that methodology selected should be applied consistently from period to period. Also consider clarifying if the methodology selected should be consistently applied for all lessee/lessor positions.</p>
Par. 59A	Refer to comments above re. Par. 42A as same are applicable to Par. 59A.
Par. 59B	Refer to comments above re. Par. 42B as same are applicable to Par. 59B.

**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.

Exposure Draft Questions for Respondents (QFR) - DOT

Due: July 8, 2022

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

DOT agrees with proposed guidance. No further comment on the matter.