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

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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.

We agree with the Board's conclusion that greater clarity is warranted to support users' implementation of mechanisms for determining discount rates. We believe the recommended changes will support greater consistency amongst Federal reporting entities and promote more efficient techniques. However, we do recommend a few editorial changes to the proposed wording to further improve the guidance and prevent misunderstanding. The following are suggested changes for consideration by the Board.

Our proposed edits to Paragraph 3 of the Omnibus are below. We are concerned that the phrase “to the end of the lease term” could be confusing.

For example, if the lease term is changed from 10 years to 15 years in year 8 of the lease, what discount rate should be used when the modification is executed? Should it be 15 years to match the new lease term or 7 years to match the remaining lease term? If this is what you are trying to clarify, we would suggest using “remaining lease term” to make that more clear.

42. The future lease payments should be discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, the interest rate should be based on marketable Treasury securities with similar maturity to ~~the end of~~ the lease term ~~lessee’s estimated incremental borrowing rate7 (the estimated rate that would be charged for borrowing the lease payment amounts for the lease term) should be used.~~

~~FN 7 – A federal lessee’s incremental borrowing rate would be the Department of the Treasury borrowing rate for securities of similar maturity to the term of the lease unless the entity has its own borrowing authority.~~

Our proposed edits to Paragraph 4 of the Omnibus are below. Most edits are clarifying in nature. The last portion of Paragraph 42A appears duplicative with the first sentence of the paragraph.

We would like to clarify if the rate selected should be what was in effect on the date of the action or the rate that was published on that date. The rates are typically published each day at 4 pm ET for the prior business day but can further be delayed by weekends and holidays.

The edit we recommend related to the discount rate to be used with modification is meant to clarify that the discount rate selected should be based on the effective date of the modification, not when the discount rate is updated in an accounting system. For example, a lease term may be modified effective February 1, but the paperwork is not completed and entered in the accounting system until February 20. We are trying to clarify that the discount rate selected should be reflective of the rates in effect on February 1, not February 20.

We had no edits for Paragraph 42C.

42A. If the interest rate is not stated in the lease, ~~T~~the discount rate should be consistent with the Treasury rate on the date of initial lease liability recognition, in accordance with paragraphs 40 and 42 (or the Treasury rate in effect on the date ~~published on the date~~ of the lease modification ~~discount rate is updated~~, in accordance with par. 46 and 48).

The rate may be based on a recent Treasury rate or ~~historical~~ average rate for the Treasury security of a similar maturity to ~~the end of~~ the lease term.~~, provided that the rate is consistent with the Treasury rate on the date of initial liability recognition (or the date the liability is updated).~~

42B. When selecting a marketable Treasury rate term of similar maturity to the end of the lease term, reporting entities may round up or down to the nearest maturity term with a published rate~~,~~ or interpolate the rate for the period between two published rates~~, or round up to the nearest maturity term with a published rate~~. The methodology for selecting marketable Treasury rate terms and related rates, interpolating, and/or rounding up or down should be consistent from period to period.

Our proposed edits to Paragraph 5 of the Omnibus are below. We had no edits to Paragraph 47. Our proposed edit to Paragraph 48 is clarifying in nature.

48. If the discount rate is required to be updated based on the provisions in paragraph 46, the discount rate should be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the marketable Treasury rate with similar maturity to ~~the end of~~ the modified lease term ~~lessee's estimated incremental borrowing rate~~ ~~at the time the discount rate is updated~~ should be used (see par. 42-42C above).

Our proposed edits to Paragraph 6 of the Omnibus are below. This is a mirroring of our proposed edits in Paragraph 42.

59. The future lease payments to be received should be discounted using the rate the lessor charges the lessee. If the interest rate is not stated in the lease, the interest rate should be based on marketable Treasury securities with similar maturity to ~~the end of~~ the lease term ~~lessor's estimated incremental borrowing rate should be used.9A~~

~~FN 9A – A federal lessor's incremental borrowing rate would be the Department of the Treasury borrowing rate for securities of similar maturity to the term of the lease unless the entity has its own borrowing authority.~~

Our Proposed edits to Paragraph 7 of the Omnibus are below. This is a mirroring of our proposed edits in Paragraph 42A-B.

59A. If the interest rate is not stated in the lease, ~~T~~the discount rate should be consistent with the Treasury rate on the date of initial lease receivable recognition, in accordance with paragraphs 56 and 59 (or the Treasury rate in effect on the date ~~published on the date~~

of the lease modification ~~discount rate is updated~~, in accordance with par. 63). The rate may be based on a recent Treasury rate or ~~historical~~ average rate for the Treasury security of a similar maturity to ~~the end of~~ the lease term~~, provided that the rate is consistent with the Treasury rate on the date of initial receivable recognition (or the date the receivable is updated)~~.

59B. When selecting a marketable Treasury rate term of a similar maturity to the end of the lease term, reporting entities may round up or down to the nearest maturity term with a published rate~~,~~ or interpolate the rate for the period between two published rates~~, or round up to the nearest maturity term with a published rate~~. The methodology for selecting marketable Treasury rate terms and related rates, interpolating, and/or rounding up or down should be consistent from period to period.

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.

We agree with the proposed amendments related to SFFAS 54 paragraphs 89 and 92, as these changes will provide greater clarity as discussed in the Board's Basis for Conclusions.