



Federal Accounting Standards Advisory Board

January 28, 2019

Memorandum

To: Members of the Committee

From: Monica R. Valentine, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: *Draft Conforming Amendments to Technical Releases for Statement of Federal Financial Accounting Standards (SFFAS) 54, Leases Exposure Draft*¹

OBJECTIVE

The objective is to obtain Committee approval of an exposure draft containing amendments to existing Technical Releases (TR) to conform to the amendments resulting from SFFAS 54, *Leases*.

BRIEFING MATERIAL

The briefing material includes this memorandum and the following attachments:

- Attachment I: Proposed Exposure Draft

BACKGROUND

SFFAS 54, *Leases*, amended SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*. The proposal would provide amendments to existing TRs to acknowledge the amendment of SFFAS 54. The references in TR 10 and 16 to “capital” and “operating” leases and the lease criteria have been revised in SFFAS 54. Leases will no longer be categorized as “capital” or “operating.” This proposal would make conforming changes to terminology related to leases. It would also clarify that reporting entities should capitalize the cost of internal use software,

¹ The staff prepares Board/Committee meeting materials to facilitate discussion of issues at the Board/Committee meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB/AAPC or its staff. Official positions of the FASAB/AAPC are determined only after extensive due process and deliberations.

including software licenses, when such software meets the criteria for general property, plant, and equipment (PP&E) in accordance with SFFAS 10, and the lease accounting concepts would no longer apply.

NEXT STEPS

The next steps will be determined during the meeting.

MEMBER FEEDBACK

If you have any questions or comments, please contact Ms. Valentine by email at ValentineM@fasab.gov by February 4, 2019.



CONFORMING AMENDMENTS TO
TECHNICAL RELEASES FOR SFFAS 54,
LEASES: AN AMENDMENT OF SFFAS 5,
ACCOUNTING FOR LIABILITIES OF THE
FEDERAL GOVERNMENT AND SFFAS 6,
ACCOUNTING FOR PROPERTY, PLANT,
AND EQUIPMENT

Federal Financial Accounting Technical Release

Exposure Draft

Written comments are requested by XXX

XXX, 2019

January 28, 2019 - Working Draft –
Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board,” exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters,](#) and other items of interest are posted on FASAB’s website at www.fasab.gov.

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the Chief Financial Officers Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE—formally the President's Council on Integrity and Efficiency) as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). FASAB's mission is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation that are not specifically or fully discussed in federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from FASAB on its website:

- ◆ [“Charter of the Accounting and Auditing Policy Committee”](#)
- ◆ [Accounting and Auditing Policy Committee Operating Procedures](#)

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Federal Accounting Standards Advisory Board

XXX, 2019

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Federal Financial Accounting Technical Release, *Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*, are requested. Specific questions for your consideration appear on page three, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Committee if you explain the reasons for your position and any alternative you propose. Responses are requested by XXX, 2019.

All comments received are considered public information. Those comments may be posted to the Accounting and Auditing Policy Committee's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to fasab@fasab.gov. If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

Wendy M. Payne
AAPC Chairperson

EXECUTIVE SUMMARY

Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, amended SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*. This Technical Release (TR) would provide amendments to existing TRs to acknowledge the amendment of SFFAS 54. The references in TR 10 and 16 to “capital” and “operating” leases and the lease criteria have been revised in SFFAS 54. Leases will no longer be categorized as “capital” or “operating.” This proposal would make conforming changes to terminology related to leases. It would also clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment (PP&E) in accordance with SFFAS 10, and the lease accounting concepts would no longer apply.

Specifically, this TR would provide conforming amendments to the following documents:

- Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*
- Technical Release 16, *Implementation Guidance For Internal Use Software*

This TR does not provide a complete update of the above TRs; the amendments conform the TRs to the provisions of SFFAS 54. A separate TR will be issued that addresses SFFAS 54-specific implementation issues.

The provisions of this TR need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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QUESTIONS FOR RESPONDENTS

The Accounting and Auditing Policy Committee (AAPC or “the Committee”) encourages you to become familiar with all proposals in the Technical Release (TR) before responding to the question in this section. In addition to the question below, the Committee welcomes your comments on other aspects of the proposed TR. Because the proposals may be modified before a final TR is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Committee believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Committee has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
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All responses are requested by XX, 2019.

- Q1. In light of the recently issued Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, this TR proposes to clarify existing TRs by providing conforming amendments (see paragraphs 3 - 10). These conforming amendments acknowledge the SFFAS 54 amendments and further clarify the revised lease accounting standards by eliminating those confusing references used in the technical releases. TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, and TR 16, *Implementation Guidance for Internal Use Software*, are being amended because internal use software has specifically been scoped out of SFFAS 54 and the language in these technical releases are no longer consistent with SFFAS 54.

Do you agree or disagree with the amendments to TR 10 and TR 16? Please provide the rationale for your answer.

- Q2. The TR 16 amendments clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment (PP&E) in accordance with SFFAS 10, and the lease accounting concepts would not apply.

Do you agree or disagree with the amendments to TR 16 to clarify the capitalization of internal use software cost? Please provide the rationale for your answer.

PROPOSED TECHNICAL GUIDANCE

SCOPE

1. Readers of this Technical Release (TR) should first refer to the hierarchy of accounting standards in Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This TR supplements the relevant accounting standards but is not a substitute for and does not take precedence over the standards.
2. The amendments addressed in this TR conform the following documents to the provisions of SFFAS 54, *Leases: An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment (PP&E)*:
 - Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*
 - Technical Release 16, *Implementation Guidance For Internal Use Software*

This TR amends certain references to leases, as well as the lease criteria which have been affected by SFFAS 54.

AMENDMENTS TO TECHNICAL RELEASES 10 AND 16

TECHNICAL RELEASE 10, *IMPLEMENTATION GUIDANCE ON ASBESTOS CLEANUP COSTS ASSOCIATED WITH FACILITIES AND INSTALLED EQUIPMENT*

3. This paragraph amends footnote 4 of TR 10, paragraph 3, by revising the footnote to remove the reference to capital leases:
 3. The scope of this guidance is limited to federal real property⁴ that contains any form of asbestos. It provides additional clarification of SFFAS 6 and TB 2006-1 for identification and recognition of asbestos-related cleanup costs, and provides a methodology for identifying and recognizing asbestos liabilities associated with federal properties.
- ⁴ For the purpose of this document, real property is defined as federal facilities and installed equipment; and includes 1) real property acquired through capital leases (see SFFAS 54, *Leases*), including leasehold improvements; and 2) real property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or federal contractors).
4. The revised footnote 4 of TR 10 paragraph 3 is as follows:
 3. The scope of this guidance is limited to federal real property⁴ that contains any form of asbestos. It provides additional clarification of SFFAS 6 and TB 2006-1 for identification and

recognition of asbestos-related cleanup costs, and provides a methodology for identifying and recognizing asbestos liabilities associated with federal properties.

⁴ For the purpose of this document, real property is defined as federal facilities and installed equipment; and includes 1) real property acquired through leases (see SFFAS 54, Leases), including leasehold improvements; and 2) real property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or federal contractors).

TECHNICAL RELEASE 16, IMPLEMENTATION GUIDANCE FOR INTERNAL USE SOFTWARE

5. This paragraph amends TR 16, paragraph 26, to remove references to leases:

26. Software License: If the term of software license(s) is 2 years or more with periodic payments, the license should be evaluated against the PP&E criteria in lease criteria as stated in SFFAS 5 paragraphs 43-46 and SFFAS 6 paragraph 20 to determine if it meets the definition of PP&E is a capital or operating lease. If the license(s) meets the definition of PP&E, then the entity should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed in accordance with SFFAS 6. If the license(s) is perpetual with an upfront cost⁹ to use the software for its entire lifetime, then the entity is purchasing IUS and should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed.

⁹The cost could be charged as a one-time payment or financed over a set period of time.

6. The revised paragraph 26 of TR 16 is as follows:

26. Software License: If the term of software license(s) is 2 years or more with periodic payments, the license should be evaluated against the PP&E criteria in SFFAS 6 to determine if it meets the definition of PP&E. If the license(s) meets the definition of PP&E, then the entity should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed in accordance with SFFAS 6. If the license(s) is perpetual with an upfront cost⁹ to use the software for its entire lifetime, then the entity is purchasing IUS and should apply its existing policy for capitalization thresholds to determine if the license should be capitalized or expensed.

⁹The cost could be charged as a one-time payment or financed over a set period of time.

7. This paragraph amends TR 16, paragraph 27 (including paragraph 27 footnote 10), to remove references to leases:

27. A license agreement may include executory costs for maintenance and technical support. Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. Assuming lease capitalization criteria and thresholds are met, software license capitalization amounts¹⁰ may be derived from the payment schedule contained in the license agreement. ~~As stated in SFFAS 5, if the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.~~ Agencies may also want to consider having each license agreement specifically identify the various costs throughout the license lifecycle, for example, initial license, maintenance, and enhancement.

⁴⁰SFFAS 5, paragraph 44.

8. The revised paragraph 27 of TR 16 is as follows:

27. A license agreement may include executory costs for maintenance and technical support. Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs. Assuming capitalization criteria and thresholds are met, software license capitalization amounts may be derived from the payment schedule contained in the license agreement. Agencies may also want to consider having each license agreement specifically identify the various costs throughout the license lifecycle, for example, initial license, maintenance, and enhancement.

9. This paragraph amends TR 16, paragraph 29, to remove references to leases:

29. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with ~~the lease criteria stated in SFFAS 5 and SFFAS 6, and as discussed in~~ paragraph 26 of this TR. SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform, or infrastructure that is used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform, or infrastructure should account for the software in accordance with SFFAS 10 and the full cost/inter-entity cost requirements of SFFAS 4.

10. The revised paragraph 29 of TR 16 is as follows:

29. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses in accordance with paragraph 26 of this TR. SFFAS 10 is not applicable to a cloud computing arrangement that does not convey a contractual right to the IUS or to ones that do not include an IUS license. The entity that develops and owns the software, platform, or infrastructure that is used in the cloud computing arrangement would account for the software development in accordance with SFFAS 10. If the funding to develop cloud computing is shared among entities without clear ownership, the service provider entity that receives funding and is responsible for maintaining the software, platform, or infrastructure should account for the software in accordance with SFFAS 10 and the full cost/inter-entity cost requirements of SFFAS 4.

EFFECTIVE DATE

11. This TR is effective for periods beginning after September 30, 2020. Early adoption is not permitted.

The provisions of this Technical Release need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Committee members in reaching the conclusions in this Technical Release. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The guidance enunciated in this Technical Release—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Technical Release may be affected by later Statements or other pronouncements. The Handbook is updated annually and includes a status section directing the reader to any pronouncement that changed this Technical Release. Within the text of the Technical Release, the guidance sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statements or other pronouncements for the rationale for each amendment.

PROJECT HISTORY

- A1. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*, revises the financial reporting standards for federal lease accounting. It provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports and includes appropriate disclosures. SFFAS 54 was issued on April 17, 2018 and is effective for periods beginning after September 30, 2020, early adoption is not permitted.
- A2. SFFAS 54 amends the lease accounting standards in SFFAS 5 and 6, which had been in effect since 1995. Under SFFAS 5 and 6, leases were classified as either capital or operating depending on whether the lease met certain criteria. The issuance of SFFAS 54 required the amendment of several statements and consecutively requires the amendment of two technical releases. This proposal is intended to eliminate references in any technical releases that conflict with the statements amended by SFFAS 54.

AMENDMENTS TO TECHNICAL RELEASES 10 AND 16

- A3. TR 10 and 16 include references to lease terminology or lease criteria that have been amended by SFFAS 54. The Committee believes it is appropriate to amend the technical releases to eliminate confusing references to “capital” and “operating” leases used prior to the SFFAS 54 amendments. The terms “capital” and “operating” leases were eliminated with the issuance of SFFAS 54. This proposal provides conforming amendments to the following technical releases:
- Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*

- Technical Release 16, *Implementation Guidance For Internal Use Software*

- A4. SFFAS 54 also amends the scope of the lease accounting standards and provides a definition of lease not clearly stated in previous standards. SFFAS 54 paragraph 5b, specifically scopes out “leases (licenses) of internal use software (SFFAS 10, Accounting for Internal Use Software, as amended).” In contrast, TR 16 paragraphs 26, 27 and 29, directs the reporting entity to apply the lease criteria in SFFAS 5 and 6 when recognizing software licenses.
- A5. The Committee took into account that the lease criteria in SFFAS 5 and 6 have been amended by SFFAS 54. The inconsistencies between the lease standards and the guidance provided in the technical releases were made apparent given SFFAS 54 specifically scopes out internal use software, including software licenses. The proposed amendments to TR 16 directs the reporting entity to apply the PP&E criteria in SFFAS 6 to determine if the internal use software meets the definition of PP&E.
- A6. In summary, the Committee believes it is necessary to amend both TR 10 and 16 to alleviate inconsistencies created by the SFFAS 54.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
OMB	Office of Management and Budget
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
TR	Technical Release

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