Statement of Federal Financial Accounting Standards 61: Omnibus Amendments 2023: Leases-Related Topics II

Status

Issued	April 7, 2023
Effective Date	For periods beginning after September 30, 2023.
Affects	• SFFAS 54, par. 19, 25, 42-42C, 47-48, 59-59C, 61, 89, and 92 • SFFAS 60, par. 11, 19, and 25
Affected by	None.
Related Guidance	None

Summary

This Statement of Federal Financial Accounting Standards (SFFAS) amends certain paragraphs in SFFAS 54, *Leases*, and SFFAS 60, *Omnibus Amendments 2021*.

In August 2019, the Accounting and Auditing Policy Committee—which operates under the general oversight of the Federal Accounting Standards Advisory Board (FASAB or "the Board")—undertook a project to develop proposed implementation guidance for SFFAS 54 as a Technical Release. During the course of the project, implementation issues were identified that are best addressed through omnibus amendments to clarify existing leases guidance rather than through a Technical Release. The issues require modifications to the existing Statements to provide technical clarifications and address areas of concern. A substantial majority of those issues were addressed in SFFAS 60; however, a few outstanding implementation issues required additional research and deliberations. This Statement addresses those outstanding issues by clarifying

- the treatment of purchase options and defaults on payments for purposes of (a) determining the lease term and (b) assessing contracts or agreements that transfer ownership for options to terminate;

- the Board's original intent for discounting lease liabilities and receivables, which should result in a more consistent and comparable application of SFFAS 54 requirements; and

- the applicability of paragraphs 89-92 of SFFAS 54 to intragovernmental sale-leasebacks and disclosure requirements applicable to them.

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Standards

Scope

1. This Statement applies to federal entities that present general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of 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*.

2. This Statement amends SFFAS 54, *Leases*, and SFFAS 60, *Omnibus Amendments 2021*, by providing additional guidance, along with technical corrections and clarifications.

Amendments to SFFAS 54

3. Paragraph 19.b of SFFAS 54 is amended as follows:

    19. In determining the lease term for both the lessee and lessor, the following specific provisions should be applied: …

        19.b An option to terminate is an unconditional right that exists within the contract. A provision that gives a lessee or lessor the right to terminate the lease conditional upon certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the lease contract, should not be considered an option to terminate the lease for purposes of determining the lease term. For example, provisions that allow for termination of a lease due to a violation of lease terms and conditions, such as a default on payments, are not considered options to terminate the lease. ~~If the lease provisions allow for the termination of a lease due to (a) the purchase of the underlying asset, (b) the payment of all sums due, or (c) the default on payments, these provisions are not considered options to terminate.~~

4. Paragraph 19.d is added as follows:

    19. In determining the lease term for both the lessee and lessor, the following specific provisions should be applied: …

19.d If a lessee has the option to purchase the underlying asset during the lease term and the contract is not a contract that transfers ownership (required to be reported in accordance with par. 25), the lease term should exclude the period, if any, after the date at which the option is probable of being exercised.

5. Paragraph 25 of SFFAS 54 and the previously-issued amendment thereto (SFFAS 60, par. 11) are amended as follows:

25. A contract or agreement that (a) transfers ownership of the underlying asset to the lessee by the end of the contract or agreement and (b) does not contain options to terminate (par. 14-19), but that may contain an availability of funds or cancellation clause that is not probable of being exercised (par. 19.c), should be reported as a purchase of that asset by the lessee or as a financed sale of the asset by the lessor.[5] For this purpose, options to purchase the underlying asset prior to the transfer of ownership are not considered options to terminate.

FN 5 - See SFFAS 6, par. 26A.

6. Paragraph 42 of SFFAS 54 and the previously-issued amendment thereto (SFFAS 60, par. 19) are amended as follows:

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 the interest rate on marketable Treasury securities at the commencement of the lease term (or at the subsequent financial reporting date in accordance with par. 44), with a similar maturity to the term of the lease ~~lessee's estimated incremental borrowing rate[7] (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~~.

7. Paragraphs 42A-42C are added to SFFAS 54 as follows:

42A. If the interest rate is based on marketable Treasury securities, it should be consistent with the interest rate on marketable Treasury securities at the commencement of the lease term, in accordance with paragraphs 40 and 42 (or the interest rate on marketable Treasury securities on the subsequent financial reporting date, in accordance with par. 46 and 48). The interest rate may be based on a recent interest rate on marketable Treasury securities or historical average interest rate on marketable Treasury securities of a similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

42B. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities should be consistent from period to period.

42C. Reporting entities should not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, reporting entities should select the longest Treasury maturity. For example, if the longest Treasury maturity at commencement of the lease term is 30 years, reporting entities should select the 30-year rate as the discount rate for a lease with a 75-year term.

8. Paragraphs 47 and 48 of SFFAS 54 are amended as follows:

47. A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the interest rate on marketable Treasury securities ~~lessee's estimated incremental borrowing rate~~.

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 interest rate on marketable Treasury securities with a similar maturity to the term of the lease ~~lessee's estimated incremental borrowing rate~~ at the time the discount rate is updated should be used (see par. 42-42C above).

9. Paragraph 59 of SFFAS 54 and the previously-issued amendment thereto (SFFAS, 60 par. 25) are amended as follows:

59. The future lease payments to be received 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 the interest rate on marketable Treasury securities at the commencement of the lease term (or at the subsequent financial reporting date in accordance with par. 61), with a similar maturity to the term of the lease ~~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.~~

10. Paragraphs 59A-59C are added to SFFAS 54 as follows:

59A. If the interest rate is based on marketable Treasury securities, it should be consistent with the interest rate on marketable Treasury securities at the commencement of the lease term, in accordance with paragraphs 56 and 59 (or the interest rate on marketable Treasury securities on the subsequent financial reporting date, in accordance with par. 63). The interest rate may be based on a recent interest rate on marketable Treasury securities or historical average interest rate on marketable Treasury securities of a similar maturity to the term of the lease, provided that the interest rate is consistent with the interest rate on marketable Treasury securities at the commencement of the lease term (or subsequent financial reporting date).

59B. When selecting an interest rate based on marketable Treasury securities of similar maturity to the term of the lease, reporting entities may round up or down to the nearest maturity or interpolate the interest rate for the period between two maturities. The methodology for selecting an interest rate based on marketable Treasury security maturities should be consistent from period to period.

59C. Reporting entities should not extrapolate beyond the longest Treasury maturity when the lease term exceeds it; rather, reporting entities should select the longest Treasury maturity. For example, if the longest Treasury maturity at commencement of the lease term is 30 years, reporting entities should select the 30-year rate as the discount rate for a lease with a 75-year term.

11. Paragraph 61 of SFFAS 54 is amended (without amendment to its sub-paragraphs or footnote) as follows:

61. The lessor should remeasure the lease receivable at subsequent financial reporting dates ~~periods~~ if one or more of the following changes have occurred at or before that financial reporting date ~~period~~, based on the most recent lease contract or agreement before the changes,[10] and the changes individually or in the aggregate, are expected to significantly affect the amount of the lease receivable since the previous measurement:

12. Footnote 11 to paragraph 89 of SFFAS 54 is amended as follows:

89. Sale-leaseback transactions involve the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). A sale-leaseback should include a transaction that qualifies as a sale[11] to be eligible for sale-leaseback accounting. A sale-leaseback transaction that does not include a transaction that qualifies as a sale should be accounted for as a borrowing by both the seller-lessee and the buyer-lessor.

FN 11 - See SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, par. 295 (with the public) and par. 314-315 (intragovernmental).

13. Paragraph 92 of SFFAS 54 is amended as follows:

> 92. A seller-lessee should disclose the terms and conditions of sale-leaseback transactions as part of ~~in addition to~~ the disclosures required of a lessee (par. 37 or 54, as applicable). A buyer-lessor should disclose the terms and conditions as part of ~~provide~~ the disclosures required of a lessor (par. 38 or 67, as applicable).

Effective Date

14. The requirements of this Statement are effective for reporting periods beginning after September 30, 2023. Early adoption is not permitted..

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

Appendix A: Basis for Conclusions

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

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any Statements that affect this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of amending Statements for the rationale for each amendment.

Project History

A1. The Federal Accounting Standards Advisory Board (FASAB or "the Board") issued SFFAS 54, *Leases*, in April 2018 with an effective date for reporting periods beginning after September 30, 2020. The effective date was later amended by SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, to reporting periods beginning after September 30, 2023.

A2. FASAB and the Accounting and Auditing Policy Committee (AAPC) commenced projects on their technical agendas to identify implementation challenges and develop guidance related to SFFAS 54.

A3. The AAPC assembled a large group of task force members—over 100 stakeholders—to identify and analyze numerous SFFAS 54 implementation topics.

A4. In June and August 2020, the Board discussed omnibus amendments candidates identified by project staff and the task force to include in the exposure draft (ED) of an initial omnibus amendments proposal (the proposal was eventually approved and issued as SFFAS 60, *Omnibus Amendments 2021*). The Board considered input provided by ED respondents and the task force during due process.

A5. Some respondents and task force members requested additional guidance on the selection and use of incremental borrowing rate estimates to discount lease liabilities and receivables. One respondent suggested that the Board clarify whether sale-leaseback requirements under paragraphs 89-92 of SFFAS 54 apply to intragovernmental transactions (see SFFAS 60, Basis for Conclusions, par. A8.b and A8.d). The Board decided to address those outstanding issues through subsequent actions.

A6. Following the issuance of SFFAS 60, the leases implementation task force recommended that the Board clarify numerous aspects of SFFAS 54, paragraphs 42 and 59, which provided for the use of estimated incremental borrowing rates to discount lease liabilities and receivables. These recommendations were consistent with those raised by respondents to the ED of SFFAS 60.

A7. The Board considered numerous factors when evaluating paragraphs 42 and 59 of SFFAS 54 and developing omnibus amendments:

a. Elements identified by task force members as requiring additional clarification

b. Technical implementation issues for entities with independent borrowing authorities

c. Cost-benefit considerations and qualitative characteristics of information in financial reports

   i. Paragraphs 152-153 of Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, provide that accounting standards can have many different kinds of effects that must be considered, including effects on the activities of accountants and auditors. It also provides that the Board must be aware of these potential effects when considering the costs and benefits of any given accounting alternative. In this particular context, the Board considered potential effects on costs of implementation, auditability, and consistent application when assessing the level of detail needed.

   ii. Paragraph 160 of SFFAC 1 provides that reliability can be affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured.

   iii. Paragraph 164 of SFFAC 1 provides that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting practices.

d. Approaches used in the following documents

   i. SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits* (par. 28-32)

ii. Governmental Accounting Standards Board (GASB) Statement 87, *Leases*[1]

iii. Financial Accounting Standards Board Accounting Standards Update 2021-09, *Discount Rate for Lessees that Are Not Public Business Entities*

A8. The Board discussed its original intent to subject intragovernmental sale-leasebacks to the requirements of paragraphs 89-92 of SFFAS 54. The Board agreed that the original intent was not sufficiently clear due to an absence of references to intragovernmental transaction guidance, including paragraphs 314-315 of SFFAS 7 and paragraphs 37-38 of SFFAS 54.

A9. In light of these considerations, the Board agreed to propose omnibus amendments to clarify the discounting of lease liabilities and receivables (par. 42, 47-48, and 59 of SFFAS 54) and the scope and applicability of sale-leaseback requirements (par. 89-92 of SFFAS 54) to intragovernmental leases.

Summary of Outreach and Responses

A10. The Board released an ED proposal on May 9, 2022, for public comment, with comments requested by July 8, 2022. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.

A11. FASAB received 16 comment letters in response to the ED. Respondents were generally supportive of the proposed Statement. In response to comment letters, the Board identified and agreed upon further changes to improve the technical clarity of the proposal and the related guidance in SFFAS 54.

A12. After consultations with GASB staff regarding implementation issues with GASB Statement 87, *Leases*, the Board elected to implement additional clarifying omnibus amendments in paragraphs 19 and 25. The Board concluded that these amendments will assist reporting entities when determining whether an option to terminate exists and its effect, if any, on the lease term and the identification of contracts or agreements that transfer ownership. The omnibus amendments to these paragraphs are generally consistent with those implemented by the GASB under GASB Statement 99, *Omnibus Amendments 2022.*[2]

A13. Improvements and additional changes included the following:

a. Improving consistency in terminology and linkage across interacting paragraphs to enhance clarity of the original omnibus proposals

b. Clarifying

c. the treatment of purchase options and defaults on payments for purposes of determining whether or not such provisions represent an option to terminate

d. Aligning phrasing in paragraphs 44 and 61 of SFFAS 54

A14. The Board considered other input provided by respondents that did not result in further modifications to the Statement:

a. A few respondents expressed concerns that paragraph 42B and 59B guidance may not be applied consistently to the leases in reporting entities' respective lease portfolios. The Board considered these comments and decided that the criteria for entities to follow *methodologies* consistently from period to period (as provided for under par. 42B and 59B) sufficiently provides for such consistency. The discounting of future lease payments under paragraphs 42-42C and 59-59C inherently involves the application of sound, objective, and reasonable professional judgments when developing and implementing accounting procedures or practices. The Board concluded that these paragraphs help inform those professional judgments, while providing reasonable guardrails in support of the qualitative characteristics of reliability, consistency, and comparability (see SFFAC 1, par. 160, 163-164).

b. One respondent noted that the options for selecting interest rates could lead to inconsistencies in values between sub-components within larger reporting entities. Inconsistencies between sub-component valuation methods exist in other areas and are not unique to leases. These differences stem from other reasonable differences in sub-component accounting and valuation policies and procedures. As previously mentioned, the Board concluded that this guidance provides sufficient criteria. Additionally, consolidated reporting entities and their sub-components may manage and harmonize their accounting policies at their discretion.

[2] Ibid.

c. A few respondents requested that the Board directly reference or hyperlink to a source of marketable Treasury securities to facilitate compliance with the requirements. It is not the role of the Board to provide this information in its pronouncements. The Board must be mindful that information sources and hyperlinks can change, thus it cannot provide such information in its pronouncements.

Board Approval

A15. The Statement was approved for issuance by all members of the Board.

Appendix B: Abbreviations

AAPC	Accounting and Auditing Policy Committee
CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FAF	Financial Accounting Foundation
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards