FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

OMNIBUS AMENDMENTS

TECHNICAL CLARIFICATIONS ADDRESSING LESSEE AND LESSOR DISCOUNT RATES AND SALE-LEASEBACKS

Statement of Federal Financial Accounting Standards XX

Exposure Draft

Written comments are requested by July 8, 2022

May 9, 2022

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.

Accounting standards are 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. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. 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 standards 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 and other items of interest are available at www.fasab.gov:

- 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
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters

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THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

May 9, 2022

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

The Federal Accounting Standards Advisory Board (FASAB or "the Board") requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards titled *Omnibus Amendments: Technical Clarifications Addressing Lessee and Lessor Discount Rates and Sale-Leasebacks.* Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by July 8, 2022.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Please provide your comments by email to fasab@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

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,

George A Scott

George A. Scott
Chair

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EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This Statement of Federal Financial Accounting Standards (SFFAS) would amend 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 proposal would address certain ongoing areas of concern not addressed in SFFAS 60, 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 disclosure requirements applicable to them.

MATERIALITY

The provisions of this Statement of Federal Financial Accounting Standards would not need to be applied to information if the effect of applying the provision(s) is immaterial.[i] A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

[i] 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.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or "the Board") encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement 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 Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board 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 regarding implementing this proposal.

The questions in this section are available for your use at https://www.fasab.gov/documents-for-comment/. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366.

All responses are requested by July 8, 2022.

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.

QFR1. 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.

QFR2. 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.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), 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 AND SFFAS 60

3. 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 marketable Treasury securities with similar maturity to the end of the lease term ~~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.~~

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

   42A. 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 published on the date the 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 down to the nearest maturity term with a published rate, 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.

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

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

6. 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 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.~~

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

   59A. 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 published on the date the 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 down to the nearest maturity term with a published rate, 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.

   59C. Reporting entities should not extrapolate beyond the longest-published Treasury security term when the lease term exceeds it; rather, reporting entities should select the longest-published Treasury security term rate. For example, if the longest-published

Treasury security term at the time of selection is 30 years, reporting entities should select the 30-year rate as the discount rate for a lease with a 75-year term.

8. 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).

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

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

10. The requirements of this Statement are effective for reporting periods beginning after September 30, 2023.

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 proposed Statement—not the material in this appendix—would 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 subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) issued SFFAS 54 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). 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 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, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and paragraphs 37-38 of SFFAS 54.

[1] The GASB material contained in this document is copyrighted by the Financial Accounting Foundation (FAF), 401 Merrit 7, P.O. Box 5116, Norwalk, CT 06856-5116, and was used with permission. Complete copies of the document are available from the FAF.

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.

APPENDIX B: ABBREVIATIONS

AAPC	Accounting and Auditing Policy Committee
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FAF	Financial Accounting Foundation
GASB	Governmental Accounting Standards Board
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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