

TRANSITIONAL AMENDMENT TO
SFFAS 54

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by July 27, 2023

June 27, 2023

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](#)
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June 27, 2023

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 (SFFAS) titled *Transitional Amendment to SFFAS 54*. 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 27, 2023.

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
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This Statement of Federal Financial Accounting Standards (SFFAS) would amend the implementation section of SFFAS 54, *Leases*, by providing transitional accommodations to reporting entities implementing SFFAS 54 in the area of “embedded leases” (a common industry term which generally describes contracts or agreements that contain lease component[s] and nonlease component[s], such as service components, and serve a primary purpose attributable to the nonlease component[s] as well as the related requirements of SFFAS 54, par. 72-77).

Under the proposal, reporting entities may elect not to assess whether contracts or agreements meeting the eligibility criteria for “embedded leases” are or contain lease component(s) as of October 1, 2023, as well as those subsequently entered into or modified prior to the end of the accommodation period. The contracts or agreements for which this accommodation is applied would be accounted for as nonlease contracts or agreements for their remaining term, unless they are subsequently modified after the end of the accommodation period. The proposal would require reporting entities electing the accommodation to prospectively apply the provisions of SFFAS 54 to lease components of new or modified contracts or agreements meeting the “embedded leases” eligibility criteria beginning October 1, 2023; October 1, 2024; or October 1, 2025.

Leases that do not meet the “embedded leases” eligibility criteria under this proposal would continue to follow the implementation provisions of paragraphs 96-98 of SFFAS 54. The proposal would also require disclosure for reporting entities electing the accommodation.

The proposal should reduce implementation time needed for reporting entities to apply the requirements of SFFAS 54 to contracts or agreements with “embedded leases” meeting the eligibility criteria in this proposal.

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.¹ 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.

¹ 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 for respondents (QFR) 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.

Please also review appendices A (basis for conclusions) and B (non-authoritative illustration), which are intended to inform respondent understanding and evaluation of the proposal when responding to the below questions.

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 27, 2023.

QFR1. Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.

QFR2. Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements that meet both of the following criteria: (a) the contracts or agreements contain nonlease component(s) and may contain lease component(s), and (b) the purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components.

Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for “embedded leases.” Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in “embedded leases,” and the level of effort for applying such criteria.

QFR3. Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain “embedded leases” during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) the expected level of effort for applying the accommodation.

QFR4. Proposed paragraph 96B provides that reporting entities may elect an accommodation period for up to two years prior to the prospective application requirements described in paragraph 96C. Please also refer to paragraphs A1-A13 of the basis for conclusions, including paragraph A10, which discusses the Board’s intent that this proposal would provide additional time to prepare for prospective implementation of paragraph 73 for new or modified “embedded leases.”

Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent. Please describe the reasons for your views and relevant considerations to facilitate the Board’s analysis of your comments.

QFR5. Proposed paragraph 96D provides that reporting entities may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.

Please provide feedback on the proposed criteria. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views.

QFR6. Proposed paragraph 96E provides that reporting entities electing the transitional accommodation would disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure would not need to be repeated during subsequent reporting periods.

Please provide feedback on the proposed disclosure requirement. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views.

QFR7. Four Board members provided an alternative view, which is documented under the basis for conclusions (appendix A), paragraphs A15-A26. Please refer to these paragraphs to review the alternative view as presented.

Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.

PROPOSED 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, 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*, by inserting paragraphs 96A-96E between paragraphs 96 and 97.

PROPOSED TRANSITIONAL AMENDMENT TO SFFAS 54

3. Paragraph 72 of SFFAS 54, *Leases*, acknowledges that lessees and lessors may enter into contracts or agreements that contain both a lease component and a nonlease component. Paragraph 73 provides that the federal entity should account for lease and nonlease components as separate contracts or agreements.
4. Contracts or agreements that contain both lease component(s) and nonlease component(s), such as service components, and serve a primary purpose attributable to the nonlease component(s), are often viewed in practice as containing “embedded leases.”
5. Paragraphs 96A-96E are added to SFFAS 54 as follows:
 - 96A.** The transitional accommodation applies only to contracts or agreements that meet both of the following criteria:
 - a. The contracts or agreements contain nonlease component(s) and may contain lease component(s).
 - b. The purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components, based on management’s assessment of the nature of the contracts or agreements and professional judgment. The primary purpose attribution to the nonlease component(s) should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgment.
 - 96B.** For contracts or agreements meeting the paragraph 96A criteria above, a reporting entity may elect to account for such contracts or agreements, including the lease component(s), as nonlease contracts or agreements in their entirety. This election applies to contracts or agreements existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2025 (end of the accommodation period).¹² The entity may elect a shorter accommodation period (contracts or agreements subsequently entered into or modified on or prior to September 30, 2024, or those existing as of October 1, 2023). The contracts or agreements under this election should be accounted for as nonleases for their remaining term, unless they are subsequently modified (see below).

FN 12 – Unless the modification affects the primary purpose assessment under par. 96A and results in the primary purpose attribution changing from nonlease component(s) to lease component(s) based on the nature of the modified contract or agreement and professional judgment.

96C. Entities electing to apply the accommodation should prospectively apply the provisions of SFFAS 54, paragraph 73, to new or modified contracts or agreements meeting the paragraph 96A criteria above that commence after (or are effective after) the accommodation period.¹³ For lease component modifications effective after the accommodation period that relate to contracts or agreements for which the accommodation was previously applied, the lease terms for such leases would assume that the lease term began as of the effective date of the modification for purposes of initial recognition and measurement.¹⁴ For such modifications, the lease liability and lease asset (for lessees) or lease receivable and unearned revenue (for lessors) should initially be measured based on the remaining lease term and associated lease payments.

FN 13 – Unless the modification is reported as a separate lease as provided in par. 84. In such cases, the additional lease would be recognized as a new lease, while the original lease component(s) may continue to be accounted for as a nonlease component under the accommodation without prospective application of par. 73.

FN 14 – Unless the modification is reported as a separate lease under par. 84. See footnote 13.

96D. A reporting entity may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.

96E. A reporting entity electing the above transitional accommodation should disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure need not be repeated during subsequent reporting periods.

EFFECTIVE DATE

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

<p>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, <i>Objectives of Federal Financial Reporting</i>, chapter 7, titled <i>Materiality</i>, for a detailed discussion of the materiality concepts.</p>
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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, *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. Following the issuance of SFFAS 54, the Board 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 Board and the AAPC have issued the following pronouncements to facilitate implementation of SFFAS 54:
 - a. SFFAS 60: *Omnibus Amendments 2021, Leases-Related Topics I*
 - b. SFFAS 61: *Omnibus Amendments 2023, Leases-Related Topics II*
 - c. Technical Bulletin 2023-1: *Intragovernmental Leasehold Reimbursable Work Agreements*
 - d. Technical Release 20: *Implementation Guidance for Leases*
- A4. In February 2023, the Board received implementation updates from staff regarding the implementation experiences and challenges within the federal environment. The Board also received letters from some reporting entities highlighting implementation challenges that they were experiencing.
- A5. Following an April 2023 clarification discussion, the Board decided to provide transitional accommodations to reporting entities in the area of “embedded leases” based on the research presented by technical staff and additional information provided during the clarification discussion.

- A6. The Board is aware that SFFAS 54 requires entities to identify and evaluate leases, which also improves accountability for their resources and obligations. As noted in paragraph 74 of Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, “accounting can and should contribute to achieving and demonstrating several kinds of accountability, such as
- a. accountability for financial resources;
 - b. accountability for faithful compliance or adherence to legal requirements and administrative policies;
 - c. accountability for efficiency and economy in operations; and
 - d. accountability for the results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.”
- A7. When developing SFFAS 54, the Board made several decisions in the interest of reducing implementation costs associated with contracts or agreements with multiple components, including, but not limited to, provisions regarding the following:
- a. The allowance of a short-term lease exception
 - b. Allocation of the contract price to multiple components of a lease that allows the stated prices to be used if they do not appear to be unreasonable
 - c. Allocation of the contract price to multiple components that allow best estimates to be used for allocation if no separate prices are included in the contract or if the stated prices appear to be unreasonable
 - d. The requirement to treat an entire multiple-component contract as a single lease unit if determining a best estimate is not practicable
 - e. The exclusion of intragovernmental leases from balance sheet recognition and measurement as lease liabilities and corresponding lease assets (for intragovernmental lessees) and lease receivables and unearned revenues (for intragovernmental lessors)
 - f. The extension of the effective date until fiscal year 2024
 - g. Prospective implementation at transition, as opposed to a retrospective approach
- A8. Many contracts or agreements contain both lease and nonlease (generally, but not always, service) components. Previous GAAP provided limited guidance on how to separate lease components and nonlease components of contracts or agreements, even though it required that separation. The Board expects that lease components for such contracts or agreements with a primary purpose *attributable to the lease components* were generally accounted for separately. However, the Board recognizes that separate accounting for lease and nonlease components may not have been consistently performed by many reporting entities for “embedded leases” (that is, contracts or agreements with a primary purpose *attributable to nonlease components*) under previous GAAP.

- A9. Accordingly, the Board also agreed that reporting entities should have the flexibility to begin recognizing lease liabilities and correspondent lease assets (for lessees) and lease receivables and unearned revenues (for lessors) for lease components of new or modified contracts or agreements meeting the paragraph 96A criteria prospectively beginning in fiscal year 2026, or earlier.
- A10. The Board expects that SFFAS 54 implementation activities, such as assessing control of the underlying assets for component(s) that may be leases, allocating contract prices to lease and nonlease component(s), among other complexities, are likely to be comparatively time consuming for contracts or agreements meeting the paragraph 96A criteria (“embedded leases”). Prospective implementation of paragraph 73 for new or modified contracts or agreements meeting the paragraph 96A criteria would provide reporting entities electing the accommodation with additional time during fiscal years 2024 and/or 2025 to (a) focus and prioritize implementation activities for contracts or agreements with a primary purpose attributable to lease components and (b) prepare for prospective implementation of paragraph 73 for new or modified “embedded leases.”
- A11. The Board recognizes that reporting entities would need to assess the eligibility of contracts or agreements for the transitional accommodation. In crafting this proposal, the Board carefully considered the level of effort necessary to balance the informational benefits of implementing paragraph 73 while also accommodating the identified implementation challenges associated with “embedded leases.” The proposal includes several features to provide that balance:
- a. Allowing reporting entities to assess the primary purpose of contracts or agreements based on their nature and professional judgment, provided that such attributions cannot appear to be unreasonable based on those factors. The Board believes that this phrasing provides for an appropriate level of preparer discretion and professional judgment.
 - b. Allowing reporting entities to elect the accommodation period and prospective application period of paragraph 73 for eligible contracts or agreements (that is, fiscal year 2024, fiscal year 2025, or fiscal year 2026) based on the expected level of time and effort.
 - c. Allowing reporting entities to apply the provisions of paragraphs 96A-96C to groups of contracts or agreements, provided that the nature of the contracts within such groups is reasonably similar.
 - d. Limiting resulting disclosures to simply disclosing the election of the transitional accommodation in the reporting period(s) covered by the accommodation period and during the reporting period immediately following the accommodation period. The Board discussed other potential disclosure options, but elected to minimize disclosure burden in order to provide maximum transitional relief.
- A12. The Board expects that most contracts meeting paragraph 96A criteria will have lease terms that are comparatively shorter in relation to contracts with a purpose primarily attributable to lease components (real property leases, for example), given the nature of the related contracts. Accordingly, the Board expects that the perceived benefits of this accommodation would outweigh the perceived informational costs.

- A13. The Board duly considered alternative accommodations for multiple component contracts when developing this proposal. Members considered allowing reporting entities to account for contracts or agreements according to their primary purpose (either lease or nonlease) indefinitely. The design of paragraphs 72-77 of SFFAS 54 underwent extensive research, due process, and deliberations. These unamended paragraphs include considerable design accommodations, which are described in paragraph A7.b-d above.
- A14. The Board is also aware that the disclosure requirements of SFFAS 49, *Public-Private Partnerships*, may also apply to contracts that contain “embedded leases.” The transitional accommodation under this proposal would have no bearing on the ongoing implementation of SFFAS 49 disclosure requirements to such contracts, if applicable.

ALTERNATIVE VIEW OF MR. BELL, MS. JOHNSON, AND MESSRS. MCNAMEE AND VICKS

- A15. Members sometimes choose to express an alternative view when they disagree with the Board’s majority position on one or more points in a proposed standard. The alternative view discusses the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the four members alone. However, the four members’ views may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The material following was prepared by the four members and is presented as an alternative view.
- A16. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks agree with the Board that challenges some reporting entities face in implementing SFFAS 54 warrant relief. The transitional accommodation the Board proposes would provide some relief from the challenges inherent in implementing paragraph 73 of SFFAS 54, which addresses accounting by lessors and lessees for contracts that contain both a lease and a nonlease component. Such relief would be limited, however, in that it would be temporary and would apply only to contracts or agreements whose purpose is primarily attributable to their nonlease components. These members believe that making available broader and permanent relief from the requirements of paragraph 73 would substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases.
- A17. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks propose that, as a practical expedient, a reporting entity may elect to account for contracts or agreements according to their primary purpose, either lease or nonlease. That is, a contract whose purpose is primarily attributable to its lease components could be accounted for as a lease in its entirety. If a contract or agreement’s purpose is primarily attributable to its nonlease components, it could be accounted for using the standards applicable to the nonlease components.
- A18. This proposal is similar to the practical expedient Financial Accounting Standards Board (FASB) Accounting Standards Codification® (ASC) Topic 842-10-15-37: “As a practical expedient, a lessee may, as an accounting policy election by class of underlying asset, choose not to separate nonlease components from lease components and instead to

account for each separate lease component and the nonlease components associated with that lease component as a single lease component.”²

- A19. The proposed practical expedient differs from the FASB’s in that it would apply to lessors as well as lessees, and it would allow exemption from lease accounting for contracts or agreements whose purpose is primarily attributable to nonlease components.
- A20. The first step in applying this proposed practical expedient would be for the reporting entity to assess whether the primary purpose of a contract or agreement is attributable to its lease component(s) or its nonlease component(s) based on the nature of the contracts or agreements. The primary purpose attribution should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgment. The four Board members proposing this practical expedient intend that this assessment would be of the same nature and extent as the assessment described in paragraph 96A.b of the Board’s exposure draft (ED).
- A21. After performing this assessment, reporting entities would be allowed under this practical expedient to do the following instead of applying the requirements of paragraph 73 of SFFAS 54:
- a. For contracts or agreements whose purpose is primarily attributable to the lease components, reporting entities could choose to account for each separate lease component and the nonlease components associated with that lease component as a single lease component.
 - b. For contracts or agreements whose purpose is primarily attributable to the nonlease components, reporting entities could choose to include the payments/receipts attributable to the lease components as part of the cost/revenue of the nonlease components, which then would be accounted for in accordance with standards applicable to those nonlease components.
- A22. As a further practical expedient, Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks propose to allow a reporting entity to choose not to apply the requirements of paragraphs 85-86 of SFFAS 54 to a contract or agreement for which it has elected the practical expedient described in paragraph A21.a when any modification to such contract or agreement relates only to its nonlease components. Lessees would be allowed to account for the effect of the modifications prospectively as an adjustment to interest expense for the underlying leases rather than remeasuring lease liabilities. Lessors would be allowed to account for the effect of the modifications prospectively as an adjustment to interest revenue for the underlying leases rather than remeasuring lease receivables. This further practical expedient is intended to mitigate the reporting burden that could arise from having to remeasure lease liabilities or lease receivables when only the nonlease components of a contract or agreement—which in the application of paragraph A21.a would not reflect the primary purpose of the contract or agreement—are modified.
- A23. Some may view the practical expedients proposed in paragraphs A20-A22 as unnecessary because reporting entities already have processes for separating lease and

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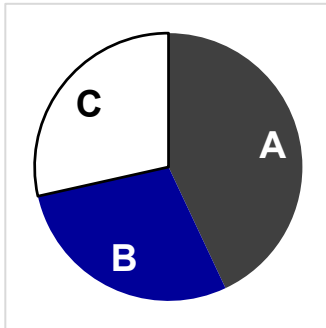
nonlease components in accounting for capital leases under the provisions of SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*, that were based on FASB ASC, Topic 840.

- A24. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks would counter that viewpoint by noting that private-sector entities also had such processes in place to meet the requirement of ASC 840-10-15-17 that “[i]f an arrangement contains a lease and related executory costs, as well as other nonlease elements, the classification, recognition, measurement, and disclosure requirements of this Topic shall be applied by both the purchaser and the supplier to the lease element of the arrangement.” Nonetheless, as a result of its due process FASB provided the practical expedient of ASC 842-10-15-37 on the basis that “the costs and administrative burden of allocating consideration to separate lease and nonlease components may not be justified by the benefit of more precisely reflecting the right-of-use lease asset and the lease liability.”³
- A25. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks acknowledge that applying paragraph A21.a, above, would result in reporting lease assets and liabilities higher than would have been reported under paragraph 73 of SFFAS 54 and applying paragraph A21.b would result in reporting lower amounts. However, the application of these two provisions would offset each other to a degree, according to these members, and they believe their net effect would likely be immaterial to reporting entities’ balance sheets. This view is based on their understanding of amounts reporting entities currently report as capital leases and disclose as operating leases relative to their total non-intragovernmental assets. They also believe any resulting differences in the timing of expense/revenue recognition would likely be immaterial to statements of net cost.
- A26. As noted in paragraph A20 above, Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks are proposing that a reporting entity would begin its application of the proposed practical expedient by performing an assessment that would be the same in nature and extent as the assessment it would perform in applying the proposed transitional accommodation. A difference between these four members’ proposed practical expedient and the proposed transitional accommodation would be in how the reporting entity would use the results of its assessment of the primary purpose of a contract or agreement. Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks believe the results of the Board’s due process for this ED would enable the Board to prescribe the underlying assessment or other work reporting entities would need to do to enable relief from certain provisions of SFFAS 54, whether that relief be the transitional accommodation the Board has proposed, the practical expedients described in this alternative view, or some other relief the Board may determine to be appropriate based on its due process.

³ FASB Accounting Standards Update 2016-02, Leases (Topic 842), paragraph BC150.

APPENDIX B: NON-AUTHORITATIVE ILLUSTRATION

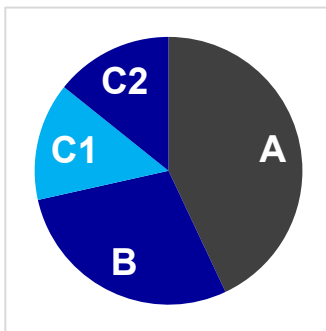
- B1. The below graphic explains the scope and applicability of paragraphs 96-97 and the proposed paragraphs 96A-96E on reporting entities' universes of contracts and agreements. The graphic is intended to facilitate understanding of the proposals. The Board may elect to omit this non-authoritative illustration from the final pronouncement.



Many contracts and agreements in the reporting entity's overall universe inherently do not include leases based on their nature (**part A** of the pie chart). For example, contracts to purchase a capital asset. Such contracts are not subject to SFFAS 54 and would not need to be reviewed for "embedded leases."

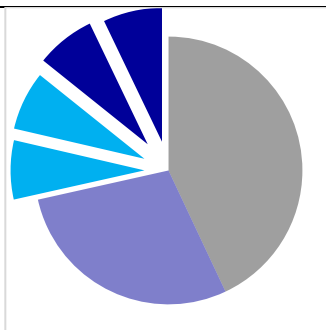
Some contracts and agreements in the universe are inherently known to serve a primary purpose attributable to lease component(s) (**part B** of the pie chart). For example, these generally would have been identified as capital or operating lease elements under previous GAAP. These contracts are subject to SFFAS 54 transitional requirements of par. 96 and 97 and their eligibility need not be assessed for the proposed accommodation.

Other contracts and agreements in the universe contain nonlease component(s) and may also contain lease component(s). The primary purpose of these contracts or agreements may not be inherently known (**part C** of the pie chart). These contracts or agreements may or may not meet both of the two criteria under par. 96A of the proposal.



Of the contracts or agreements under **part C**, the primary purpose of many are attributable to nonlease component(s), such as services. These contracts or agreements meet par. 96A criteria under the proposal, provided that the attributions do not appear to be unreasonable based on their nature and professional judgment. Accordingly, they would be eligible for the proposed par. 96B-96C accommodation (**part C1** of the pie chart).

Other contracts or agreements under **part C** may not have a primary purpose attributable to nonlease component(s) based on their assessed nature and professional judgment. These would not meet par. 96A criteria under the proposal and, therefore, they would be subject to the transitional requirements of par. 96 and 97 (**part C2** of the pie chart) along with those under **part B**.



Provisions of par. 96A-96C of the proposal—including primary purpose assessments—may be applied to groups of contracts or agreements that are reasonably similar in nature, as provided by par. 96D of the proposal.

Note: The size of the "pie" segments are illustrative and not intended to represent the actual or expected relative volume of contracts or agreements in each respective segment.

APPENDIX C: ABBREVIATIONS

ASC	[FASB] Accounting Standards Codification®
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
SFFAS	Statement of Federal Financial Accounting Standards

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