

Leases Implementation Guidance Updates: Amendments to Technical Release 20

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This proposal would amend Federal Financial Accounting Technical Release (TR) 20, *Implementation Guidance for Leases*, by:

- incorporating minor conforming amendments related to Statement of Federal Financial Accounting Standards (SFFAS) 61, *Omnibus Amendments 2023*,
- inserting additional leases implementation guidance questions and answers within the related topic areas, and
- providing clarifying amendments / technical corrections on certain existing questions and answers under TR 20.

QFR 1 Do you generally support the proposed conforming amendment in paragraph 5? Please explain the reasons for your position. Please also explain any alternatives or additional candidates that you propose and the authoritative basis for such alternatives.

VA supports the amendment in paragraph 5 as written. If there are various underlying assets and an interest rate is not stated in the lease contracts, it is reasonable to use Treasury securities interest rate to be able to calculate the NPV. This would assist VA with properly recording the right to use asset on the financial statement.

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QFR 2 Do you generally support the proposed updates (that is, new questions and answers) in paragraphs 6-10? Please explain the reasons for your positions, the paragraph number(s), and/or topic areas of the proposals that are related to your positions. Please also explain any alternatives you propose and the authoritative basis for such alternatives.

VA generally supports the proposed updates in paragraphs 6-10 as listed. An additional topic (question and answer) related to the treatment of real estate taxes and insurance on real property leases is necessary. An earlier version of the update to Technical Release 20 included this topic (when the lessee agency pays the commercial lessor the actual amount of the taxes and insurance). To accurately value leases, agencies need to understand whether FASAB considers these costs to be lease costs that are part of the calculation of the lease liability for a lessee, variable payments dependent upon a rate, variable payments not dependent upon a rate, or non-lease components. The determination will impact the calculation of the lease liability and the tracking and reporting under SFFAS 54 Par 54. Additionally, we do not believe the transitional accommodation or alternate transitional accommodation discussed at the June FASAB Board Meeting covers real estate taxes and insurance.

For example, when VA is the lessee, an initial base estimate of real estate taxes and insurance are typically included in the shell rent and re-assessed at some defined frequency, typically annually. VA then pays the lessor a "true-up" or receives a credit based on the difference between the original assessed value and the re-assessed value.

If taxes and insurance are considered non-lease components, agencies would need to work through each lease and attempt to strip out the amounts related to real estate taxes and insurance initially included in the shell rent. Not only is this time consuming but arriving at an accurate value of shell rent without real estate taxes and insurance will be challenging.

Under the proposed alternate practical expedient, real estate taxes and insurance payments would be included as part of rent, which would then require agencies to remeasure the lease asset and liability, whenever taxes and insurance are reassessed. Because taxes and insurance are typically reassessed annually, agencies could be forced to remeasure annually or at a minimum conclude the adjustment is immaterial to the asset/liability annually.

Based on our research and analysis of real property lease agreements, real estate taxes and insurance are considered variable payments that depend on a tax or insurance rate. When considered variable payments, real estate taxes and insurance should initially be measured on the commencement of the lease term or SFFAS 54 effective date and not remeasured unless the lease liability is required to be remeasured based on changes specified in paragraph 44.

Without this topic, will agencies be directed to refer to FASB ASC 842 for guidance?

In addition, Paragraph 6 8A and 8B examples are not clear and should be elaborated. It would be helpful if FASAB could provide examples to describe the scenario for context purpose. Based on the scenario provided, the proposed answer is clear, but the scenario can be more specific to help the agency identify and apply it to their agency.

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QFR 3 Do you generally support the clarifying amendments / technical corrections in paragraph 11-13? Please explain the reasons for your positions, the paragraph number(s), and/or topic areas of the proposals that are related to your positions. Please explain any alternatives or additional clarifying amendments / technical correction candidates that you propose and the authoritative basis for such alternatives and/or candidates.

Generally, we support the clarifying amendments / technical corrections in paragraph 11 – 13. However, we have a question and comment:

- Should any fees paid to the Agent Agency be capitalized as part of the initial lease asset measurement?
- We are concerned that Agency XYZ will not receive relevant information timely necessary to accurately maintain its SFFAS 54 portfolio from Agent Agency.