

*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.

We concur with the amendment proposed in paragraph 5 as it conforms with the updates in SFFAS 61.

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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.

Yes, we generally support the proposed updates in paragraphs 6-10. We appreciate the questions and answers in paragraphs 8A and 8B on control and would recommend an additional 1-2 questions on asset control to be added to the TR. This topic is difficult to interpret and believe that additional examples would aid in the consistent application among reporting entities. In FASB 2016-02, we find 842-10-55-79, Example 6, and 842-10-55-124, Example 10, to be particularly useful and would recommend the AAPC model questions and answers after these examples.

Additional comments on specific paragraphs are as follows.

- In the first sentence of paragraph 8A, we recommend changing “right to use” to “data transmission services” to clarify that this contract is for services, without provision of asset rights, such as the following:

***“8A. A reporting entity enters into a 15-year contract with a utility company for data transmission services on the utility’s ~~right to use~~ a fiber optic cable network in exchange for consideration.”***

We also recommend moving up the SFFAS 54 text from paragraphs 3.a and b into paragraph 8A instead of 8B. It would be beneficial to have the text appear in the first paragraph and then be cited in the second.

Also, at the end of paragraph 8A, we recommend additional text to clarify the primary purpose of the contract, such as:

***“In this example, data transmission is effectively a service, consistent with SFFAS 54 paragraph 4 guidance, which states,***

***4. The lease definition excludes contracts or agreements for services, except those contracts or agreements that contain both a lease component and a service component (par. 73). A service contract is a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to provide a tangible asset.***

***The contract’s primary purpose, in this example, is obtaining a service, rather than provision of a tangible asset.”***

- We recommend slight rewording in the second and third sentences of paragraph 8B to better tie the question and answer together and ensure consistency in terms used throughout.

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**“8B.** *The reporting entity makes the decisions about the use of the fibers by connecting each end to its electronic equipment and controls access to its use and can exclude use by other entities. For example, the reporting entity ~~customer~~ lights the fibers and makes decisions about data transmission.”*

Also, at the end of the answer paragraph of 8B, we recommend additional text to clarify the primary purpose of the contract, such as:

**“In this example, the right to use the fiber optic cables is effectively a lease, consistent with SFFAS 54 paragraph 4 guidance. The contract’s primary purpose, in this example, is the provision of a tangible asset, rather than obtaining a service.”**

- In paragraph 9 of this TR (52A of TR 20), we recommend clarifying that amortization should occur over the payment stream of the lease. We are concerned that “amortized over the lease term” in this instance may cause confusion because of the complexities that can arise as in paragraph 75A of the TR. We also recommend edits to describe the interest accruing between payments, such as:

**52A.** *“Yes. In accordance with paragraph 43 of SFFAS 54, interest expense represents the amortization of the discount on the lease liability, using the interest method. That discount should be amortized over the period lease payments are made ~~entire lease term~~, including each of the first three years during which the reporting entity is not making payments, as interest accrues between each payment, based on the outstanding principal balance.”*

- In paragraph 10 of this TR (75A of TR 20), we recommend removing the statement about the discounted amount. We are concerned that it could cause confusion and do not see a need for it in this scenario. We also recommend clarifying that although the liability is amortized over 9 years in this example, a 10-year interest rate should be used to match the lease term. Potential edits provided for consideration as follows:

**75A.** *“Therefore, the lease liability would be the present value of \$17 million per year, ~~for 9 years, and the discount (the difference between the undiscounted cumulative \$153 million in payments and the present value) would be~~ amortized over 9 years, using the interest method. If the interest rate is not stated in the lease, the 10-year rate based on marketable Treasury securities should be used to match the lease term in accordance with paragraph 42 of SFFAS 54. At the end of year 9, the lease liability would be zero. The lease asset, however, would be amortized in a systematic and rational manner over the entire 10-year lease term, in accordance with paragraph 50 of SFFAS 54 (as the lease term is shorter than the useful life of the underlying asset).”*

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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.

We support the clarifying amendments/technical corrections in paragraphs 11-13. In addition, we recommend updating the Basis for Conclusions to explain the rescission and replacement of paragraph 91.