

Leases Implementation Guidance Updates: Amendments to Technical Release 20

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Please provide your name.

Name: Kristin Salzer, Director of Financial Reporting and Policy

Please identify your organization, if applicable.

Organization: Department of Commerce

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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.

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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.

Department of Commerce Response:

The Department generally supports the proposed amendment to paragraph 78 of TR 20 because the revision to this scenario helps to better clarify the SFFAS 54-required accounting treatment for leases involving multiple underlying assets and the assets have different lease terms.

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.

Department of Commerce Response:**Regarding ED paragraph 6:**

a)

The Department respectfully recommends that the wording of the Answer to proposed item 8A. be reconsidered because SFFAS 54, para 2 does not firmly require (see yellow highlighted text below) that the underlying asset should be identified either through explicit specification in the contract or implicit specification at the time the underlying asset is made available for use:

2. For purposes of applying this Statement, a lease¹ is defined as a contract or agreement whereby one entity (lessor) conveys the right to control the use of property, plant, and equipment (PP&E)² (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration. To qualify as a lease, the underlying asset typically should be identified by being explicitly specified in a contract or agreement. However, an asset also can be identified by being implicitly specified at the time that the asset is made available for use by the lessee. Leases include contracts or agreements that, although not explicitly identified as leases, meet the definition of a lease.

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b)

The Department has the following recommended minor edit to proposed item 11A:

Yes. In accordance with paragraph 3 of SFFAS 54, the reporting entity should assess whether the contract gives the lessee both the right to obtain economic benefits or services from the use of the underlying asset *as specified in the contract* (emphasis added) and the right to control access to the economic benefits or services of the underlying asset *as specified in the contract* (emphasis added). In this example, the paragraph 3 control criterion is met notwithstanding the parameters of the contract regarding the nature and manner of use (see also TR 20 (add "20") par. 7.b).

Regarding ED paragraph 7:

a)

The Department respectfully recommends that the wording of the Answer to proposed item 24A. be revised to clarify if the reporting entity is the lessee or the lessor in this scenario.

b)

When the reporting entity is the lessee in this scenario, the Department respectfully recommends that the answer further indicate that, if the reporting entity is the lessee, that the condition set forth in SFFAS 54, paragraph 15b has been met, which also supports that the lease is not a short-term lease.

c)

When the reporting entity is the lessor in this scenario, the Department respectfully recommends that the answer further indicate that, if the reporting entity is the lessor, that the condition set forth in SFFAS 54, paragraph 17d has been met, which also supports that the lease is not a short-term lease.

Regarding ED paragraph 8, the Department supports the added scenario because this scenario helps to better clarify the SFFAS 54-required accounting treatment for short-term leases.

Regarding ED paragraph 9, the Department respectfully believes that the Answer to proposed item 52A. at this time is not reasonably/adequately supported by SFFAS 54, paragraph 43. The Department recommends and believes that FASAB should rather first amend SFFAS 54, paragraph 43 to include this important instructive content that the discount on the lease liability should be amortized over the entire lease term. The Department believes that amending SFFAS 54, paragraph 43 is important and appropriate, including because in this example the amortization of the discount on the lease liability is not for years one through three but rather is for years four through ten.

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Regarding ED paragraph 10, the Department respectfully believes that the Answer to proposed item 75A. as to amortizing the lease liability over nine years (rather than over the lease term of ten years) appears to be inconsistent with the instructive guidance currently provided in the Answer to proposed item 52A. Please see the Department's comment to ED paragraph 9 above.

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.

Department of Commerce Response:

The Department generally supports the proposed amendments to paragraphs 17, 25, and 91 of TR 20 because the revisions or replacement to these scenarios help to better clarify the SFFAS 54-required disclosures or accounting treatments.

Department of Commerce Additional Comments to ED:

The Department of Commerce is requesting that for paragraphs 41- 43 of TR 20, FASAB consider providing example disclosures to provide further clarity to preparers.

The Department of Commerce is requesting that for paragraphs 56 and 57 of TR 20, FASAB consider further walking through in sequence the application of the relevant SFFAS 54 paragraphs for these scenarios to provide further clarity to preparers for this complex subject matter.