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March 29, 2019

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Mailstop 6H19  
Washington, DC 20548

**RE: Proposed Federal Financial Accounting Technical Release, *Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment***

Dear Ms. Payne:

We appreciate the opportunity to respond to the proposed Federal Financial Accounting Technical Release, *Conforming Amendments to Technical Releases for SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment* (the exposure draft or ED). We support the efforts to conform the technical guidance for SFFAS 54.

We agree that Technical Release (TR) 16, *Implementation Guidance for Internal Use Software*, and TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, need to be clarified due to the issuance of SFFAS 54. However, we believe the changes needed may be more extensive than those proposed. We have the following observations and suggestions that we request the Board to consider.

Technical Release 16

The proposed amended paragraph 26 of TR 16 states: "...the license should be evaluated against the PP&E criteria in SFFAS 6 to determine if it meets the definition of PP&E." Paragraph 17 of SFFAS 6 provides such criteria and definition: "Property, plant, and equipment consists of *tangible assets* [emphasis added], including land, that meet the following criteria..." We believe referencing the definition of PP&E could cause diversity in practice because there is judgment as to whether software is a tangible asset. We recommend the Board instead require a software license to be accounted for as PP&E when it meets the characteristics of general PP&E in SFFAS 6 paragraph 23 (which are based on use), without requiring the license to meet the definition (and related criteria) of PP&E in paragraph 17 of SFFAS 6.

Assuming that a software license meets the definition of PP&E (including the related criteria comprising that definition), or the characteristics of general PP&E as we are proposing, the exposure draft instructs a reporting entity to "apply its existing policy for capitalization thresholds..." In order to apply a capitalization threshold to any asset, a reporting entity needs to measure the cost of the asset. Neither SFFAS 6 nor the exposure draft provide guidance as to how to measure the cost of a software license. Furthermore, neither SFFAS 6 nor the exposure draft provide guidance on recognition and measurement of the related liability for the future payments to be made under the terms of the software license agreement.

We also note that the TR does not provide transition guidance for software licenses upon implementation of SFFAS 54.

We recommend the AAPC amend paragraphs 26 and 27 of TR 16 as follows:

26. Software License: If the term of a software license is 2 years or more, an entity should evaluate the software license against paragraph 23 of SFFAS 6 to determine if the license meets the characteristics of general PP&E. If the software license meets the characteristics of general PP&E, the software license should be capitalized.

26a. The entity should determine the measurement of the liability for the software license as the present value of the minimum payments during the term, excluding that portion of the payments representing executory costs to be paid by the software provider, discounted at the applicable Treasury rate. The entity should apply judgment in determining the portion of the payments representing executory costs.

26b. For capitalized software licenses, the entity should recognize an asset initially measured at its cost, which includes the initial measurement of the liability.

26c. Upon implementation of SFFAS 54, the entity should assume the term for unexpired software licenses began as of the beginning of the period of implementation and follow the guidance in paragraphs 26, 26a, and 26b.

27. Agencies may also want to consider having each license agreement specifically identify the various costs throughout the license lifecycle, for example, initial license, maintenance, and enhancement.

#### Technical Release 10

We believe the proposed language to amend footnote 4 of paragraph 3 of TR 10 may cause confusion because it does not use the same terminology for leased assets as SFFAS 54. We recommend that the AAPC revise the proposed language as follows (added text underlined; deleted text struck-through):

“For the purpose of this document, real property is defined as federal facilities and installed equipment; and includes 1) real property assets underlying a lessor’s lease ~~recognized as a result of leases~~ (see SFFAS 54, *Leases*)...”

If you have questions about our response, please contact Ms. Amanda Nelson at 202-533-5560 or [anelson@kpmg.com](mailto:anelson@kpmg.com).

Sincerely,

**KPMG LLP**

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