

AAPC Exposure Draft - Technical Release: *Conforming Amendments to Technical Releases for SFFAS 54, Leases*

Questions for Respondents due April 1, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

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Please provide your name.

Name: Douglas A. Glenn, Assistant Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller)

Please identify your organization, if applicable.

Organization: Department of Defense (DoD)

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.

Q1. In light of the recently issued Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, this TR proposes to clarify existing TRs by providing conforming amendments (see paragraphs 3 -10). These conforming amendments acknowledge the SFFAS 54 amendments and further clarify the revised lease accounting standards by eliminating outdated references as a result of the new guidance. TR 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, and TR 16, *Implementation Guidance for Internal Use Software*, are being amended because internal use software has specifically been scoped out of SFFAS 54, so the language in these TRs is not consistent with SFFAS 54.

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Do you agree or disagree with the proposed amendments to TR 10 and TR 16? Please provide the rationale for your answer.

DoD Response: Partially Agree. We agree that TR 10 and TR 16 need to be updated to address references to lease terminology and lease criteria that have been amended by SFFAS 54. We disagree with some of the revised language in the TR 16 amendment as denoted in our response to Q2 below.

- Q2.** The TR 16 amendments clarify that reporting entities should capitalize the cost of internal use software, including software licenses, when such software meets the criteria for general property, plant, and equipment in accordance with SFFAS 10, *Accounting for Internal Use Software*, and the lease accounting concepts would not apply.

Do you agree or disagree with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost? Please provide the rationale for your answer.

DoD Response: Disagree.

- The revised paragraph 26 of TR 16 requires a software license to be evaluated against the property, plant, and equipment (PP&E) criteria in SFFAS 6 and not in accordance with SFFAS 10. SFFAS 10 does not address the recognition of software licenses other than the language in the Appendix A: Basis For Conclusion, which indicates that software licenses are similar to leases of general PP&E and that the Board believes that it would be appropriate for the federal entity to apply lease accounting concepts and the entity's existing policy for capitalization thresholds and for bulk purchases to licenses.*
- To evaluate a software license against the PP&E criteria in SFFAS 6 does not appear to fit the purpose of SFFAS 6, which is to provide accounting standards for Federally owned PP&E; deferred maintenance; and cleanup costs, as stated in paragraph 1 of SFFAS 6. Furthermore, PP&E consists of tangible assets as defined in paragraph 17 of SFFAS 6. Accordingly, we are questioning why the PP&E criteria was selected as the preferred option rather than alternative criteria, since software licenses are not federally owned property nor are they tangible assets as is stated in SFFAS 6.*

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- *The TR 16 amendments do not address the treatment of software license if the license does not meet the definition of PP&E. We recommend addressing software license that does not meet the definition of PP&E in the proposed revision to paragraph 26 of TR 16.*
- *Given that ownership is a factor in SFFAS 6 in defining what is considered to be PP&E, we believe that if the software license is not a perpetual license where the license is purchased for a one-time lump payment upfront, or paid over a period-of-time and can be used indefinitely, then the software license should be considered as a subscription or term license versus PP&E because ownership is not a consideration. As any term or subscription software license where the agency will pay yearly/monthly subscription amount(s) to use the software, giving them the ability to have the latest version of the software, but not establishing ownership, should be accounted for as an expense in the Statement of Net Cost. Therefore, the payments for a non-perpetual software license fee should be expensed. An example would be on a straight-line basis over the term of the license, which could result in a prepayment or liability (if the amounts are not payable on a straight-line basis over the license term). Our basis for this approach is based on paragraphs 57-61 (Advances and Prepayments) of SFFAS 1, Accounting for Selected Assets and Liabilities. We recommend that the proposed revision to paragraph 26 of TR 16 be modified to reflect this approach.*

Additional Comment:

If FASAB's revision to paragraph 26 of TR 16 does not address software licenses in more detail than as currently proposed in the subject ED, DoD would like to request that FASAB issue clearer guidance on Internal Use Software (IUS), specifically software licenses. The additional guidance will improve DoD financial reporting and contribute to meeting the Federal financial reporting objectives. SFFAS 54 is not applicable to software licenses and SFFAS 10 is actually silent on the specific recognition of software licenses, with the exception of the language in the SFFAS 10 basis for conclusions; therefore, consistent with GAAP hierarchy, Federal agencies are to look first to the FASAB accounting standards for guidance.