

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

Questions for Respondents due April 1, 2019

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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acknowledge the SFFAS 54 amendments and further clarify the revised lease accounting standards by eliminating outdated references as a result of the new guidance.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.

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

A1. Treasury generally agrees with the proposed amendments to TR 10 and TR 16, as existing guidance from the recently updated SFFAS 54 did not address the issue of Internal Use Software adequately.

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However, we have some issues with Par. 5 and Par. 6 of the TR 16 amendment. The revised language that “*the license should be evaluated against PP&E criteria in SFFAS 6 to determine if it meets the definition of PP&E*” is problematic. SFFAS 6 as revised under the FASAB Omnibus Exposure Draft dated February 22, 2019, continues to indicate that PP&E consists only of “*tangible assets*”. Software licenses are not tangible assets, and therefore could never meet the capitalization criteria under the standards. For Par. 5 and Par. 6 of the proposed amendments to TR16 to be effective, the FASAB Omnibus Exposure Draft, dated February 22, 2019, would need to update SFFAS 6 Paragraph 17 to include intangible assets.

- 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.

A2. Treasury generally agrees with the proposed amendments to TR 16 to clarify the capitalization of internal use software cost. However we still have the issues of (1) inconsistency of cross-references among SFFAS 5, 6, 10 & 54, (2) how to recognize lease liability for software licenses, as to offset the capitalized lease payments at the inception of the agreement with the vendors, and (3) further clarification on the cloud computing agreement in Par. 10 page 7.

(1) With the understanding that the revised language is focused on TR 16; SFFAS 10, *Accounting for Internal Use Software* paragraph 67 states:

“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.”

FN 19 See SFFAS No. 5, Accounting for Liabilities of the Federal Government, “Capital Leases,” pars. 43-46, and SFFAS No. 6, Accounting for Property, Plant, and Equipment, par. 20, for federal accounting standards for leases.”

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The related paragraphs in SFFAS Nos. 5 and 6 now reference SFFAS 54 and it specifically **excludes** Software Licenses. The wording in SFFAS 10 should be updated as well, or referenced to TR 16 for consistency to improve.

(2) In addition, the revised language does not adequately indicate how an agency would value the purchase of perpetual software license with 2 or more years of periodic payments, where a perpetual license is granted at the end of the term of the payments. If the purchase agreement meets the capitalization criteria, the proposed language in TR 16 allows an agency to use judgment to determine what to capitalize.

There is no clear guidance as to whether an agency would capitalize all the payments at once, the net present value of the payments, or capitalize yearly costs on a yearly basis. Furthermore, if an agency capitalizes all the payments at the inception of the agreement, or capitalizes the net present value of the payments, there is no guidance as to whether an agency would recognize a liability, and what type of liability, to offset the capitalization of the asset. Since there can be no lease liability for software licenses, there is no other guidance as to what the offsetting liability would be.

We suggest the Amendment to update or add instruction specifically related to the software licensing scenario as discussed above, in order to provide clearer accounting treatment procedures for entities in similar situation.

(3) In Par. 10 page 7 of the TR 16, it would be helpful if the guidance language could further clarify the cloud computing arrangement since those arrangements can be more complex than what can be simplified in the paragraph.