

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acknowledge the SFFAS 54 amendments and further clarify the revised lease accounting standards by eliminating outdated references as a result of the new guidance.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

**GSA Response:** We are very concerned with the wording shown in Paragraph 4 of the ED, specifically for the proposed change to Footnote 4 of Paragraph 3 in TR10, regarding the revised definition of Federal real property. The existing

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TR10 language being removed was specific to include “capital leases” as Federal real property subject to consideration for reporting of asbestos liabilities. The revised wording of, “...***real property is defined as federal facilities and installed equipment; and includes 1) real property recognized as a result of leases (see SFFAS 54, Leases) and leasehold improvements;***” appears to greatly expand the population of leases that must be considered for potential disclosure of asbestos liabilities. It is also not sufficiently clear whether the terminology, “*real property recognized as a result of leases*” is intended to include right-to-use (RTU) assets capitalized under SFFAS 54 or is limited to real property recognized in accordance with Paragraph 25 of SFFAS 54 (leases that will transfer ownership).

We believe very strongly that RTU assets should be excluded from consideration as real property in the application of asbestos liability reporting requirements. In all instances that we are aware of, and in general, retirement obligations for asbestos removal is borne by the owner of real property. We also recognize that leases have the potential to create exposure to asbestos liability risk to a lessee in instances where transfer of ownership at a point in time is stated in the lease, or a purchase option is exercised. We believe that it is only in these two instances that a lessee should be required to consider recognition of possible or probable asbestos liabilities for leased assets.

If RTU assets were included as real property in the assessment processes for asbestos liability reporting, this would result in a substantial increase in effort expended by GSA, both for initial implementation and in the long-term. We would expect to not find any instances where GSA is at risk for and have to report asbestos liabilities with RTU assets. However, the exercise of evaluating all of our thousands of existing leases, and annual monitoring of thousands of new leases and lease modifications for consideration under asbestos reporting requirements would create an excessive burden with no expected impact on GSA financial reporting. This compares to the very small population (less than 10) of leases that today meet the criteria as capital leases and are included in considerations for asbestos liability reporting.

Our concern with the existing wording proposed in the ED is further complicated by nuances in the potential interpretations of the wording. While SFFAS 54 does indicate that leased assets are to be disclosed separately from other PP&E assets, SFFAS 54 does not definitively declare whether RTU assets are expected to also be grouped with other assets and considered an asset of the category they are associated with (i.e. buildings, vehicles, equipment, land, etc.). Accordingly, it is unclear from SFFAS 54 whether an RTU asset from a lease of real property is considered to be real property or a separate and distinct RTU

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asset. The distinction in this wording impacts the interpretation of the proposed change to Footnote 4. If an RTU asset for a lease of real property is not actually deemed to be real property, than the language used in the Footnote 4 of, "...1) real property recognized..." would seem to exclude RTU assets and limit potential applicability of asbestos reporting to assets acquired under SFFAS 54 paragraph 25, and leasehold improvements. With the potential for multiple interpretations, the proposed changes to Footnote 4 should be reworded for clarity.

We suggest the following wording to replace the part 1) in the footnote 4:

***"1) real property recognized as a result of leases that will transfer ownership (see SFFAS 54, Leases, paragraph 25) and leasehold improvements;"***

From experiences with GSA's real property portfolio, we would also expect that instances of asbestos liabilities related to leasehold improvements would prove to be exceedingly rare. We would suggest that the AAPC poll agencies with real property to determine if including leasehold improvement discussions with this language has merit and appears to have sufficient benefit to outweigh the cost of regular processes and controls to evaluate such assets for potential asbestos liability.

- 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.**

**GSA Response:** We disagree with some of the wording used for the proposed changes to paragraph 27 of TR 16, specifically the sentence, "*Agency judgment should apply in determining what portions of license fees are attributable to software capitalizable costs versus executory costs.*" This sentence reads as a directive requirement that agencies must make estimates of the component costs of a license (initial cost, maintenance, enhancements, etc.), and use estimates of such elements to capitalize appropriate portions in accordance with SFFAS 10. In many instance, there is no reasonable basis management would have to make such estimates, especially when software is sold under one lump-

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sum price, or pricing requires recurring payments (annually or other), but it is clear that maintenance and enhancements are included with purchase. There are instances where distinct costing/pricing of the components is not information sellers make available to the public, or the components are not even available to procure separately.

Accordingly, it is recommended that the wording in this section be clarified to only require management to make these estimates where there is available market information or available pricing data from sellers to use as a basis for the estimates. We further recommend language be added that if no such reliable basis exists, licenses should be expensed and not included in SFFAS 10 capitalization.

We also request a sentence be added to paragraph 27 of TR16 to specifically state that entities should not apply concepts such as prescribed in SFFAS 54 to impute or derive asset values for capitalization purposes of SFFAS 10. Accordingly, a license that may involve payment streams would only include amounts subject to capitalization if a contract/agreement clearly identifies financing as an element of the award, or if there are upfront amounts due for the right to use the software and the upfront costs are clearly identified as a portion of the payment stream.