

Transitional Amendment to SFFAS 54

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.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Please email your responses to fasab@fasab.gov. If you are unable to respond by email, please call (202) 512-7350 to make alternate arrangements.

This [proposal](#) would amend the implementation section of Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases*, by providing transitional accommodations to reporting entities in the area of “embedded leases” (a common industry term which generally describes contracts or agreements that contain lease component[s] and nonlease component[s], such as service components, and serve a primary purpose attributable to the nonlease component[s] as well as the related requirements of SFFAS 54, par. 72-77).

QFR 1 Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole? Please provide reasons for your views.

SSA Response: SSA (“we,” “our,” “the agency”) generally agrees with the conforming amendment, and appreciates the deferral provided by the accommodation period. The evaluation of nonlease service contracts for potential “embedded leases” is an exceptionally time-consuming and administratively burdensome process that imposes substantial costs in an overall tight budgetary environment where agency appropriation levels from year to year are uncertain and are not always keeping pace with inflation or unfunded mandates. Specifically, agencies must review hundreds (or even thousands) of contract award actions that each could have hundreds of pages of supporting documentation to glean whether there are any contract provisions that could be interpreted as yielding an “embedded lease.” While this proposed accommodation does not provide as much relief as we were hoping for, the accommodation does allow for a more high-level and streamlined evaluation process by agencies and a deferral of lease accounting requirements for “embedded leases”

that should give agencies additional time to further develop policies and procedures to account for this activity, and to have time to research and acquire automated solutions where necessary.

We appreciate the Board's willingness to try and provide some relief to agencies. However, we also believe the release of additional standards, guidance, etc., this close to SFFAS 54 implementation is hindering agencies' ability to focus on implementation. Given the timing constraints, it may be more beneficial, and less confusing, to defer all of the requirements surrounding "embedded leases" for at least two years.

QFR 2 Proposed paragraph 96A provides that the transitional accommodation, if elected by the reporting entity, would apply to contracts or agreements that meet both of the following criteria: (a) the contracts or agreements contain nonlease component(s) and may contain lease component(s), and (b) the purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components.

Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria), which are intended to provide criteria for the scope of the transitional accommodation for "embedded leases." Respondents are encouraged to refer to the basis for conclusions and provide feedback on the design of these proposals and the extent to which they effectively scope in "embedded leases," and the level of effort for applying such criteria.

SSA Response: We believe the paragraphs effectively scope in "embedded leases." We are grateful for the accommodation but would like to note there will still be a significant level of research required to determine whether hundreds (or thousands) of contracts may have minor parts that could be considered "embedded leases." Therefore, we support the inclusion of paragraph 96D that allows for a grouping of similar contracts, which we believe would have the effect of mitigating some of the burden of this research.

QFR 3 Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C, which are intended to allow practitioners to reduce implementation time by not reporting certain "embedded leases" during the accommodation period. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views. Respondents are encouraged to refer to the basis for conclusions and provide feedback on (1) the design of these proposals, (2) the expected effectiveness of the transitional accommodation, and (3) and the expected level of effort for applying the accommodation.

SSA Response: SSA appreciates the deferral provided by the accommodation period. We agree there will be some reductions in agency implementation efforts concerning "embedded leases." However, as noted in responses to other QFRs, researching an expansive portfolio of predominantly nonlease contracts to search for potential minor "embedded lease" activity is an exceptionally time-consuming and administratively burdensome process that imposes substantial costs in an overall tight budgetary environment where agency appropriation levels from year to year are uncertain and are not always keeping pace with inflation or unfunded mandates. Specifically, agencies must review hundreds (or thousands) of contract award actions that each could have hundreds of pages of supporting documentation to glean whether there are any contract provisions that could be interpreted as yielding an "embedded lease."

SSA agrees with the Alternative View presented in paragraphs A15 – A26 whereby “as a practical expedient, a reporting entity may elect to account for contracts or agreements according to their primary purpose, either lease or nonlease.” We believe the practical expedient should be made permanent. Based on our initial reviews, we have little to no “embedded lease” activity, yielding a portfolio of contract activity that is entirely, or almost entirely, nonlease. We do not believe expending the substantial cost in time and effort to search for potential “embedded lease” activity justifies the benefit of more precisely reflecting vastly insignificant potential right-to-use assets and lease liabilities. We do not believe the readers of our financial statements would use such information in their decision-making processes, nor would agency decision-makers.

QFR 4 Proposed paragraph 96B provides that reporting entities may elect an accommodation period for up to two years prior to the prospective application requirements described in paragraph 96C. Please also refer to paragraphs A1-A13 of the basis for conclusions, including paragraph A10, which discusses the Board’s intent that this proposal would provide additional time to prepare for prospective implementation of paragraph 73 for new or modified “embedded leases.”

Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent. Please describe the reasons for your views and relevant considerations to facilitate the Board’s analysis of your comments.

SSA Response: SSA appreciates the accommodation period being offered. This year, as we continued our preparations to implement SFFAS 54, we conducted a thorough review of larger-dollar service contracts to best identify potential “embedded leases” (as there was not a management intent to lease assets under these contracts). This was an administratively burdensome and time-consuming process that involved re-reviewing hundreds of contract award actions, with each award action containing up to several hundred pages of supporting documents. The process required us to devote substantial and scarce staffing resources, which could have been utilized for other accounting work priorities.

Therefore, SSA supports making the accommodation permanent in accordance with the Alternative View in paragraphs A15-A26. We concur with paragraph A25 that the application of the provisions would offset, and the net effect would be immaterial to reporting entities’ balance sheets.

QFR 5 Proposed paragraph 96D provides that reporting entities may apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature. A reporting entity may select different accommodation periods under paragraph 96B for different groupings of contracts or agreements.

Please provide feedback on the proposed criteria. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views.

SSA Response: SSA appreciates the accommodation. As we continued our preparations this year to implement SFFAS 54, we conducted a thorough review of larger-dollar service contracts to identify ways to best identify potential “embedded leases” (as there was not a management intent to lease assets under these contracts). This was an administratively burdensome and time-consuming process that imposed substantial costs, as it involved re-reviewing hundreds of contract award actions, with each award action containing up to several hundred pages of supporting documents. Therefore, having the ability to group reasonably similar contracts when applying the provisions should yield a reduction in these burdens and costs.

QFR 6 Proposed paragraph 96E provides that reporting entities electing the transitional accommodation would disclose the election of the transitional accommodation during the reporting period(s) covered by the accommodation period and the reporting period immediately following the accommodation period. The disclosure would not need to be repeated during subsequent reporting periods.

Please provide feedback on the proposed disclosure requirement. Please describe any alternative views or approaches, suggestions for improvements, and the reasons for your views.

SSA Response: SSA appreciates the accommodation. However, we do not believe such a disclosure is necessary. Since this proposed standard, if it is adopted, becomes GAAP, financial statement readers should have an understanding that preparers’ financial statements may or may not contain “embedded leases.” SSA’s potential “embedded lease” activity is neither material nor significant. Therefore, we do not believe there is a critical need in the next two to three years for this disclosure.

QFR 7 Four Board members provided an alternative view, which is documented under the basis for conclusions (appendix A), paragraphs A15-A26. Please refer to these paragraphs to review the alternative view as presented.

Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.

SSA Response: Overall, SSA agrees with the Alternative View presented in paragraphs A15 – A26 whereby “as a practical expedient, a reporting entity may elect to account for contracts or agreements according to their primary purpose, either lease or nonlease.” We believe the practical expedient should be made permanent. Based on our initial reviews, we have little to no “embedded lease” activity, yielding a portfolio of contract activity that is currently entirely nonlease. We do not believe expending the substantial costs in time and effort to search for potential “embedded lease” activity justifies the benefit of more precisely reflecting vastly insignificant potential right-to-use assets and lease liabilities. We do not believe the readers of our financial statements would use such information in their decision-making processes, nor would agency decision-makers.