

*Transitional Amendment to SFFAS 54*

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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.

Yes, Treasury generally agrees with the proposed transitional amendment to SFFAS 54 as a whole.

However, Treasury believes that the accommodation should be made a permanent option. Treasury has found the agreements that contain embedded leases identified thus far to be immaterial to both the contracts containing them as well as to the agency overall. Therefore, it appears that the level of effort to extract/obtain the necessary information to perform a valuation and subsequent monitoring/reporting efforts greatly exceeds the added value to a financial statement's reader.

In the event the accommodation is not considered for permanent adoption, Treasury recommends either delaying “embedded lease” accounting provisions for another year (total of three years) or applying them on a prospective basis to contracts entered into or modified after September 30, 2023, in order to provide additional time for agencies to further develop their approach for the

identification, valuation, and reporting of “embedded leases” and allow them to focus their efforts on lease components at implementation.

Further, Treasury recommends amending the definition of “embedded lease” from the agency’s right to control the assets to agency’s control of the leased asset. This amendment would allow for a distinction between assets that are used exclusively by a vendor to accomplish the service and those assets used by the agency. The rationale for this change is that a contract should be accounted for as service when the agency purchases service and does not use the asset.

**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.

Treasury agrees that the transitional accommodation criteria are sufficient to identify “embedded lease” scenarios.

Treasury recommends allowing agencies to make an accounting policy election, similar to FASB’s practical expedient discussed in ASC 842-10-15-37, not to separate nonlease components from lease components and instead to account for both components as a single lease unit. This accounting policy election would relieve the agencies from the burden of allocating the contract consideration between the lease and nonlease components.

**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.

The flexibility to elect an accommodation period through September 30, 2025 is much appreciated and might allow for the allocation of remaining implementation efforts/costs across that timeframe, alleviating the immediate burden. In the event the accommodation is not considered for permanent adoption, Treasury recommends either delaying “embedded lease” accounting provisions for another year (total of three years) or applying them on a prospective basis to contracts entered into or modified after September 30, 2023. Additional time could also allow the agencies to update their contracting processes to include clauses that clearly call out the inclusion of an embedded leased asset and valuation of the asset (in comparison to the overall contract value). These changes could greatly reduce the operational burden of the agencies in locating and tracking embedded leases.

**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.

Treasury believes the accommodation should be made a permanent option. Treasury has found the agreements that contain embedded leases identified thus far to be immaterial to both the contracts containing them as well as to the agency overall. Therefore, it appears that the level of effort to extract/obtain the necessary information to perform a valuation and subsequent monitoring/reporting efforts greatly exceeds the added value to the financial statement's reader.

**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.

Treasury agrees with and appreciates the provided flexibility. Permitting reporting entities to apply the accommodation provision, and elect different accommodation periods, for similar groups will significantly alleviate the level of effort of having to review every single contract/modification. Costs saving and implementation burden would be minimized. This in turn allows more time for reporting entities to focus/prioritize the development of future methodologies for the identification, valuation, and reporting of "embedded leases" after the accommodation period expires, assuming the transitional accommodation is not made permanent.

**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.

Treasury agrees with the proposed disclosure requirements for reporting entities electing the transitional accommodation as it does not appear to create an undue burden.

**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.

Treasury fully agrees with the alternative view/practical expedient proposed by Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks. Treasury has found the agreements that contain embedded leases identified thus far to be immaterial to both the contracts containing them as well as to the agency overall. Therefore, it appears that the level of effort to extract/obtain the necessary information to perform a valuation and subsequent monitoring/reporting efforts greatly exceeds the added value to the financial statement's reader.

In Treasury's opinion, the level of effort to support SFFAS 54 requirements after the accommodation period has expired will be excessive and will most likely not be justified by the benefit of more precise reporting as the standard intends.