

*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.

HUD, generally, agrees with the proposed transitional amendment to SFFAS 54. According to the OCFO-Office of Accounting and HUD's Federal Housing Administration, the proposed amendment allows for the professional judgement of management assessments of the nature of the contracts or agreements.

HUD's Office of Government National Mortgage Association adds that the transitional amendments are helpful for Agencies that may require a phased approach or more time to complete comprehensive assessments of non-lease agreement populations and implement new systems required for recordkeeping, accounting, and reporting.

**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 components(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.

HUD partially agrees with the proposed criteria. According to the OCFO-Office of Accounting and HUD’s Federal Housing Administration, the level of effort for applying the criteria has proven burdensome and time consuming. According to FASB ASC 842., a lease contract is NOT embedded in a larger service arrangement unless the contract states that fact explicitly. This could require a substantial change to the structure of contracts awarded by HUD. It could also affect the CLIN structure and the funding structure of potential contracts. HUD follows standard Govt. guidelines to award contracts. Currently, HUD has certain contracts that include multiple funds including credit reform financing funds. The question is how the funding should be applied for the embedded leases when contracts have multiple funding structures. It would not be appropriate, practical or financially prudent to award separate contracts for the same services to address the new embedded lease requirements.

However, HUD’s Office of Government National Mortgage Association agrees that the criteria for the scope of the transitional accommodation for embedded leases is reasonable. They also add that such criteria must be necessarily broad since each Agency will have different processes and systems for procurement, leasing, accounting, and resource management which would require more specific criteria at the Agency level under the umbrella of the criteria proposed above.

**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.

HUD agrees with the approach and timeline presented in 96B and 96C for the election of embedded leases. OCFO-Office of Accounting and HUD’s Federal Housing Administration states, with respect to the design of the proposed transitional accommodation, allowing reporting entities to prospectively apply the provisions of SFFAS 54, paragraph 73, to new or modified contracts or agreements meeting the paragraph 96A criteria is reasonable. Paragraph 73 states that federal entities should account for the lease and nonlease components as separate contracts or agreements. Unless the contract or agreement meets the exception in Paragraph 76, federal entities should account for those components as a single lease unit if the contract does not include the prices for the individual components or if any of those prices deemed to be unreasonable after maximizing the use of observable information.

Furthermore, paragraph 96C provides for the lease term for a lease component modification is effective after the accommodation period for the purpose of initial recognition and measurement.

HUD's Office of Government National Mortgage Association also explains that this approach provides Agencies with flexibility to implement the guidance in accordance with the specific project plans and dependencies which will exist at each Agency.

**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.

HUD generally agrees that the length appears appropriate. However, according to OCFO-Office of Accounting and HUD's Federal Housing Administration, it depends if the Board can address all the potential contractual and accounting issues identified by the Agencies.

According to HUD's Office of Government National Mortgage Association, as discussed above, the proposed timeline appears reasonable to allow Agencies to adopt and implement the guidance, including time necessary to define populations, perform assessments of agreements, design and modify systems and processes and design reporting and disclosures.

**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.

HUD agrees with the proposed criteria. According to the OCFO-Office of Accounting and HUD's Federal Housing Administration, the proposed practical expedient approach requiring reporting entities to apply the provisions of paragraphs 96A-96C to groups of contracts or agreements that are reasonably similar in nature, as well as, to select different accommodation periods under paragraph 96B for different groupings of contracts or agreements will mitigate the reporting burden of remeasuring lease liabilities.

HUD's Office of Government National Mortgage Association also adds that applying the transitional accommodation to groups of contracts or agreements, that are reasonably similar in nature, would reduce the level of effort for the review of contract populations and allows for more consistent procedures and policies to be designed. The phased approach also provides Agencies with flexibility to implement over time in a managed process more likely to be successful.

**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.

HUD agrees with the proposed disclosure requirement. According to the OCFO-Office of Accounting and HUD's Federal Housing Administration, the proposed practical expedient approach will mitigate the reporting burden of remeasuring lease liabilities.

HUD's Office of Government National Mortgage Association also supports the proposed disclosure requirements to 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 for comparative reporting. This disclosure would provide financial statement users with useful information in understanding the implementation approach and in understanding differences in comparability between Agency Financial Reports.

**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.

HUD partially agrees with the proposed alternative view. According to the OCFO-Office of Accounting and HUD's Federal Housing Administration, Appendix A, paragraph A25, the Board members acknowledge that applying paragraph A21.a, would result in reporting lease assets and liabilities higher than would have been reported under paragraph 73 of SFFAS 54, and applying paragraph A21.b would result in reporting lower amounts. However, the application of these two practical expedient provisions would offset each other and that the net effect would likely be immaterial to reporting entities' Balance Sheets.

According to HUD's Office of Government National Mortgage Association, the four Board members, Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks, all had strong alternative views for the board to consider, particularly their viewpoint in A16 which suggest a more permanent relief, as the current relief is only temporary and would apply only to contracts or agreements whose purpose is primarily attributable to their nonlease components. While HUD's Office of Government National Mortgage Association understands the concerns raised, they agree with a permanent relief to agree the FASAB treatment with FASB's and to reduce SFFAS 54 lease standard implementation cost.