

*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.

We agree that this is the most difficult portion of SFFAS 54 to implement. The extra transition time will be helpful but would also be temporary. Farm Production and Conservation (FPAC)

Generally, we agree with the proposed amendment to allow agency to defer reporting of embedded leases for up to 2 years. This provides accommodation to identify PP&E-related agreements with lease/non-lease components and to modify contracting processes as needed. Forest Service (FS)

**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.

We are concerned with some of the wording of this part of the standard. The purpose of the contract is “primarily” attributable to non-lease components. The word “primarily” could be interpreted in a number of ways. Additionally, it would be nice if an example could be provided to illustrate criteria (a). (FPAC)

Determining whether an agreement’s purpose as primarily attributable to a non-lease component vs a lease component could prove challenging. Developing criteria to make that attribution would need to withstand review (e.g., IG) and be consistent among department and agencies. (FS)

**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.

No comments on this. (FPAC)

No alternative views are suggested. Prospective application after the accommodation period appears the most practical and workable. (FS)

**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.

This is the most difficult part of the implementation of SFFAS 54. Developing the skills to identify these lease elements of contracts is a challenge that every agency will have to overcome. (FPAC)

The proposed two-year accommodation period appears sufficient to evaluate the variety of procurement activities that may have possible lease/non-lease components. (FS)

**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.

We agree with this proposal. (FPAC)

Flexibility in selecting different accommodation periods for different contact groupings is a practical choice. It provides room to evaluate the variety of PP&E agreements in support of operations. (FS)

**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.

We agree with this proposal. (FPAC)

The disclosure requirement appears acceptable. (FS)

**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.

We agree that this practical expedient could reduce the workload associated with SFFAS-54. The question that comes to mind is the materiality of embedded leases. If this amount is small relative to the lease landscape, this would not materially impact the reporting of leases. However, the time and effort to come to that determination may be a huge draw on the organization resources with no resulting benefit to the financial reporting process. (FPAC)

The alternative view that offers a practical expedient to account for agreements based on its "primarily attributable" lease or non-lease characteristic appears reasonable. Separating agreements introduces more subjectivity, possible less precision, and greater effort. (FS)

