

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.

The Department of Education generally agrees with the proposed transitional amendment to SFFAS 54 as a whole. The Department is still analyzing the contracts we have that may contain lease components, and these types of contracts have been the most difficult and time consuming to assess. The transitional amendment provides an option to allow us more time to assess “embedded leases”, therefore making the transition to compliance with SFFAS 54 less difficult.

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.

The Department believes that these criteria are sufficient for outlining the scope of the transitional accommodation for “embedded leases.” The potential embedded lease agreements that the Department has identified thus far have contained both a lease and non-lease component, with the primary purpose of the agreement being attributable to the non-lease component, or the service component. These lease agreements would clearly fit these criteria and would fall under the scope of the transitional amendment.

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) the expected level of effort for applying the accommodation.

The Department supports the proposed transitional accommodation provisions under paragraphs 96B-96C. We believe these will reduce the time it takes the Department to implement SFFAS 54, as we continue to spend a large amount of time focused on this subject, analyzing embedded leases and trying to distinguish lease components from non-lease components in these contracts.

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.

The Department supports the length of the proposed accommodation period, as we believe it allows us sufficient time to both focus on other lease agreements for implementation in FY 2024 and conduct further analysis on agreements that might contain lease and non-lease components.

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.

The Department supports the proposed criteria, with the belief that “reasonably similar in nature” is sufficient for grouping contracts, considering the target contract population’s main purpose is attributable to non-lease components, or service components.

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.

The Department supports this proposed requirement 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. We believe this is sufficient, as including the disclosure more than one reporting period following the accommodation period would not be necessary or relevant, considering the time elapsed since the termination of the accommodation period.

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.

The Department partially agrees with the alternative view, in that accounting for some contracts according to their primary purpose (lease or non-lease) would be practical but impractical for others. With our contracts, there are several where the primary purpose is to provide a service, with a few assets included that are peripheral to the contract. Nonetheless, these assets would qualify as non-lease components and would have to be accounted for as such under the current standard. We believe the practical expedient mentioned in the alternative view would be appropriate to implement here, as the underlying assets are relatively inconsequential to the contract but take time and effort to identify and account for as lease components. On the other hand, we have a contract that is primarily a service contract but has several underlying assets (PP&E) included. It would be impractical to apply the alternative view’s practical expedient here because although it is primarily a non-lease contract, the lease components could be significant and need to be accounted for as such under the current SFFAS 54.

