

Transitional Amendment to SFFAS 54

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Name: Ryan Willing, NASA Branch Chief of Policy & Compliance

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Organization: NASA Office of the Chief Financial Officer

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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.

Generally, agree with the proposed transitional amendment, but do not agree that a transitional period will provide meaningful or less costly relief and only serve to complicate reporting of an otherwise basic service contract. Agree with the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks noted in paragraph A16 (and supported in following paragraphs) that making the relief from the requirements of paragraph 73 permanent would “substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases.” Also, many of these contracts or agreements are primarily for service components and are understood by the general public as such. Because the ED contains various disclosure methodologies due to how an agency recognizes lease/nonlease components of predominantly service contracts, the information may not be comparative nor meaningful.

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.

Generally, agree with the information provided in paragraphs 3-4 and 5 (96A criteria), but believe the level of effort to continually review and update for these ‘embedded leases’ would be manually intensive and would not provide meaningful information to the users of the financial statements. As identified in the ED, many of these contracts or agreements are primarily for service components and are understood by the general public as such. This portrayal and various disclosure methodologies due to how an agency recognizes lease/nonlease components only serve to complicate an otherwise basic service contract or agreement generally recomputed every 5 years.

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.

Although the transitional accommodation provides a temporary reprieve, believe that those contracts or agreements with predominantly nonlease components and determined to be accounted for as such should be permanently excluded from SFFAS 54 for both lessors and lessees. The level of effort to continually review and update any disclosure information for these ‘embedded leases’ would be manually intensive and would not provide meaningful information to the users of the financial statements. The exclusion would continue as long as modifications were made only to the nonlease component. This aligns to the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks in paragraphs A17-A22.

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.

Generally, agree with the proposed transitional amendment, but do not agree that a transitional period will provide meaningful or less costly relief. Agree with the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks noted in paragraph A16 (and supported in following paragraphs) that making the relief from the requirements of paragraph 73 permanent would “substantially reduce the cost of implementing SFFAS 54 without substantially diminishing the quality of financial reporting of leases.”

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.

Generally, agree with the proposed provisions in paragraphs 96A-96C. However, believe that the provision should only apply to those contracts or agreements that are predominantly for a lease component. Contracts or agreements that are predominantly for a nonlease component should be excluded.

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.

Generally, agree with the transitional accommodation and no need to repeat during subsequent reporting periods. However, believe that those contracts or agreements with predominantly nonlease components should be permanently excluded.

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.

Agree with the alternative view of Mr. Bell, Ms. Johnson, and Messrs. McNamee and Vicks. Do not agree that a transitional period will provide meaningful or less costly relief overall. Although delayed, any reviews or tracking by many agencies will be manually intensive and will not be cost beneficial in the understanding by users of the financial statements. Refer also to QFR3.