

*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.

DOI: We agree. Providing the transitional accommodation on embedded leases would allow for more time to analyze some of our complex leasing agreements with multiple components (lease and nonlease).

DOI would need guidance in OBM Circular A-136 for what this disclosure would entail “Leases that do not meet the “embedded leases” eligibility criteria under this proposal would continue to follow the implementation provisions of paragraphs 96-98 of SFFAS 54. The proposal would also require disclosure for reporting entities electing the accommodation.”

**It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.**

**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.

DOI: IF the alternative views noted in paragraphs A15-A26 are not implemented then:

- 1) For paragraph 3, we do not agree that they should be on separate contracts. The wording is confusing – suggest using same contract, separate line items instead. The DOI uses one contract for these embedded type leases and the lease and nonlease components are usually on different lines.
- 2) For paragraph 4, we agree with this sentence defining embedded leases.
- 3) For paragraph 5, we agree with paragraph 96a. and the criteria.

**It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.**

**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.

DOI: IF the alternative views noted in paragraphs A15-A26 are not implemented then:

- 1) The design of these proposals – we believe that paragraphs 96B & 96C provide enough information for users to properly assess their portfolio for compliance with this transitional accommodation.
- 2) The expected effectiveness of the transitional accommodation – we believe the transitional accommodation will be a great tool to leverage for users with regards to embedded leases.
- 3) The expected level of effort for applying the accommodation – we believe the effort for applying the accommodation will be offset by the extra time this gives us to bifurcate the embedded leases as the accommodation expires. This will allow the DOI to identify and assess multiple component leases.

**It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.**

**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.

DOI: IF the alternative views noted in paragraphs A15-A26 are not implemented then:

We believe that making the accommodation permanent would be a better route. If the primary purpose of the contract is for services, rarely will the lease component be of significance to change a user of the periodic financial statements to draw a different conclusion on the agencies financial position. If during a review, we believe the agency would be able to determine if the lease component is actually material to the financial statements and then adjust to account for that portion of the service contract in accordance with SFFAS 54.

**It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.**

**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.

DOI: IF the alternative views noted in paragraphs A15-A26 are not implemented then:

We like the flexibility the accommodation provides with regards to paragraph 96D. As stated, this will allow entities a reasonable amount discretion for service contracts that contain a lease component as outlined in 96A-96C.

**It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.**

**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.

DOI: IF the alternative views noted in paragraphs A15-A26 are not implemented then: We agree, however, we would like to see what that disclosure would entail from OMB. If the disclosure is text in nature about the entity selecting the disclosure and high-level description of the accommodation, and not overly burdensome.

**It should be noted that DOI would recommend implementing the concepts noted in the alternative view paragraphs A15-A26.**

**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.

DOI: We agree. We strongly recommend that FASAB adopt the concepts noted in paragraphs A15-A16 (alternative view). The recommendations will lead to relief in otherwise complex system process changes and operations support needs. We understand that an agency will still be required to define processes and responsibilities towards analysis and determination of "Primary purpose of the contract", however the suggestions in the view have potential to reduce the overall implementation and operational cost that the DOI would have.