



**UNITED STATES DEPARTMENT OF COMMERCE**  
**Chief Financial Officer and**  
**Assistant Secretary for Administration**  
Washington, D.C. 20230

Monica R. Valentine  
Executive Director  
Federal Accounting Standards Advisory Board  
Washington, DC

Dear Ms. Valentine:

The Department of Commerce has reviewed the proposed Statement of Federal Financial Accounting Standards, *Transitional Amendment to SFFAS 54* dated June 27, 2023.

Please find enclosed answers to the questions that were asked of respondents and two additional comments. If you have any questions, please contact me at (202) 482-2715 or [ksalzer@doc.gov](mailto:ksalzer@doc.gov).

Sincerely,

**KRISTIN SALZER**

Digitally signed by KRISTIN  
SALZER

Date: 2023.07.30 20:39:53 -04'00'

Kristin Salzer  
Director of Financial Reporting and Policy

Enclosure

cc: Julie Tao  
Bruce Henshel  
Micah Reed

*Transitional Amendment to SFFAS 54*

**Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”**

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

**Please provide your name.**

Name:

**Please identify your organization, if applicable.**

Organization:

*Please email your responses to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, please call (202) 512-7350 to make alternate arrangements.*

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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.

**Department of Commerce Response:**

The Department is very appreciative of FASAB's significant and extensive efforts including a) FASAB's collection of information and review of preparer circumstances and feedback regarding the SFFAS 54 implementation and ongoing application for embedded leases; and b) FASAB's development of a proposed transitional accommodation and an Alternative View for review/comment.

The Department is very respectfully strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26), which proposes broader, permanent relief including of *optional* practical expedience approaches by a preparer as compared to transitional relief. The Department believes that it is important to note that the Alternative View does not *require* a preparer's adoption of the practical expedience approaches set forth.

The Department strongly believes that the proposed Alternative View including the *optional* practical expedience approaches sets forth an appropriate and supportable cost-effective balance of a broader and permanent approach for an amendment to SFFAS 54 regarding providing relief to preparers regarding financial accounting and reporting for embedded leases, while appropriately providing meaningful and appropriate financial reporting information to users of the financial statements and appropriate burden/costs to preparers regarding financial accounting and reporting for embedded leases.

The Department believes that the Alternative View approach set forth could significantly reduce the implementation burden and ongoing burden/cost of financial accounting and reporting to preparers without substantially diminishing the quality and usefulness of financial reporting to users, as discussed in Alternative View paragraph A.16.

**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.

**Department of Commerce Response:**

**The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraphs 3 through 5 (96A criteria).**

**However, the Department respectfully believes that the proposed transitional accommodation 96A criteria would result in complexities and burdens to a preparer interested in possibly adopting the transitional accommodation, including collecting relevant information and data to determine which transitional accommodation period would be cost-effective and appropriate. The Department believes that it may be difficult and burdensome for a preparer to evaluate and determine if a transitional accommodation can be adopted in a cost-effective manner and should or should not be adopted.**

**As previously discussed in the Department’s response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through 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.

**Department of Commerce Response:**

**The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96B and 96C criteria).**

**However, the Department respectfully believes that the proposed transitional accommodation 96B and 96C criteria may result in complexities and burdens to a preparer interested in possibly adopting the transitional accommodation, including collecting relevant information and data to determine if the transitional accommodation can be adopted *in a cost-effective manner* and for which accommodation period(s) and if the transactional accommodation should or should not be adopted. The Department believes that it may be difficult and burdensome for a preparer to evaluate and determine if a transitional accommodation can be adopted in a cost-effective manner and should or should not be adopted.**

**Further, the Department respectfully believes that the proposed transitional accommodation 96C criteria, after adoption by a preparer, would result in complexities and burdens to a preparer regarding financial accounting for subsequent modifications to contracts/agreements that fall under the transitional accommodation.**

**As previously discussed in the Department’s response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through 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.

**Department of Commerce Response:**

**The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96B criteria).**

**However, the Department respectfully believes that the proposed transitional accommodation 96B criteria may result in complexities and burdens to a preparer interested in possibly adopting the transitional accommodation, including collecting relevant information and data to determine if the transitional accommodation can be adopted *in a cost-effective manner* and for which accommodation period(s) and if the transactional accommodation should or should not be adopted. The Department believes that it may be difficult and burdensome for a preparer to evaluate and determine if a transitional accommodation can be adopted in a cost-effective manner and should or should not be adopted.**

**As previously discussed in the Department's response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through 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.

**Department of Commerce Response:**

**The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96D criteria) as a means to provide preparers with appropriate flexibility as to groups of contracts/agreements that are similar in nature.**

**As previously discussed in the Department's response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through 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.

**Department of Commerce Response:**

**The Department appreciates and believes that the proposed transitional accommodation developed by FASAB is well-developed with respect to paragraph 5 (96E criteria) and is reasonable and appropriate without undue burden to preparers.**

**As previously discussed in the Department's response to QFR 1, the Department is rather strongly supportive of the Alternative View in its entirety (paragraphs A15 through 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.

**Department of Commerce Response:**

The Department is very respectfully strongly supportive of the Alternative View in its entirety (paragraphs A15 through A26), which proposes broader, permanent relief including of *optional* practical expedience approaches by a preparer as compared to transitional relief. The Department believes that it is important to note that the Alternative View does not *require* a preparer's adoption of the practical expedience approaches set forth.

The Department strongly believes that the proposed Alternative View including the *optional* practical expedience approaches sets forth an appropriate and supportable cost-effective balance of a broader and permanent approach for an amendment to SFFAS 54 regarding providing relief to preparers regarding financial accounting and reporting for embedded leases, while appropriately providing meaningful and appropriate financial reporting information to users of the financial statements and appropriate burden/costs to preparers regarding financial accounting and reporting for embedded leases.

The Department believes that the Alternative View approach set forth could significantly reduce the implementation burden and ongoing burden/cost of financial accounting and reporting to preparers without substantially diminishing the quality and usefulness of financial reporting to users, as discussed in Alternative View paragraph A.16.