

*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.

Based on government-wide discussions, agencies need additional time to examine agreements to determine if there is a lease component. The transitional accommodation will still require a heavy lift of agencies to identify the primary purpose of all contracts/agreements. The implementation of October 1, 2023 is challenging given this late transitional accommodation, since the primary purpose of the agreement needs to be determined for lease components. We partially agree with the proposed transitional amendments because we feel the alternative view is the best approach for HHS.

**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.

To determine if contracts or agreements meet the criteria is paragraphs 96A, agencies will need to review each contract or agreement. HHS will have to review contracts/agreements for these criteria manually. Therefore, identifying contracts to which the transitional accommodation is applicable is itself extremely burdensome, and we feel additional time should be granted for all embedded leases, regardless of the primary purpose.

**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.

Agree if the primary purpose of the agreement is nonlease then it should be classified as such and no need to break out the lease portion. This classification should be applied going forward regardless of the extension for embedded leases, which is consistent with the alternative view.

Footnote 12 requires agencies to monitor modifications to all contracts to determine if the primary purpose changed. This does not seem to provide relief to agencies but seems more burdensome to have to continually monitor each modification to all 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.

We are in favor of the alternative view and recommend the accommodation be made permanent. If the primary purpose of the contract is nonlease, then account for it accordingly. If primary purpose of the contract is a lease, then account accordingly as a lease.

**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.

As stated previously, HHS will have to review contracts/agreements individually to evaluate for the criteria to apply the transitional accommodation. Grouping contracts will add another layer of analysis, therefore, HHS does not see the value of grouping contracts.

**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.

As stated above, HHS is in favor of the alternative view. If the transitional accommodation is the final determination of the Board, we recommend standard language for this disclosure to be made available for agency use, similar to what is provided for classified activities.

**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.

HHS agrees with and prefers the alternative view. The alternative view would require less burdensome analysis and reduce the cost of implementing this standard for agencies. As stated in the alternative view, reporting embedded leases using the provision in paragraphs 21a and 21b “any resulting differences in the timing of expense/revenue recognition would likely be immaterial to reporting entities’ balance sheets.”