



January 29, 2021

Mr. George A. Scott, Chair
Federal Accounting Standards Advisory Board
441 G Street NW
Suite 1155
Washington, DC 20548

Via email to fasab@fasab.gov

Dear Mr. Scott:

The Financial Management Standards Board (FMSB) of the Association of Government Accountants (AGA) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on the joint exposure draft (ED) on the Federal Financial Accounting Technical Release titled *Implementation Guidance for Leases* and Statement of Federal Financial Accounting Standards titled *Omnibus Amendments to Leases-Related Topics*. We have reviewed the ED and generally agree with the guidance. We have the following comments regarding the questions for respondents (QFR) and the specific matters for comment (SMC):

QFR 1. Do you generally support the proposed Statement and TR proposals as a whole? Please provide reasons for your views.

Yes, with the exceptions noted below, we do generally support the proposed Statement and TR proposals. We considered the TR proposals as very detailed with frequent references to the underlying standard. The level of detail provided should allow preparers to apply the responses to their situations.

QFR 2. Are there specific aspects of the proposed Statement and/or TR that you disagree with? If so, please explain the reasons for your positions, the paragraph number(s), and/or topic area(s) of the proposals that are related to your positions, and any alternatives you propose and the authoritative basis for such alternatives.

Regarding paragraph 22 which states the cancelable periods are excluded from the lease terms, the corollary of the response appears to be that this should be treated as a short-term lease, since it can be cancelled at any time by either party unilaterally. (Based on SFFAS 54, paragraphs 22, 23, and 24). This conclusion does not appear reasonable in light of the cancellation penalties, which are so great that there is evidence that neither party will terminate the lease. If the scenario described here is a real-life scenario, we suggest that FASAB specifically address the issue of how to handle a situation where the literal interpretation of the standard does not appear to produce a reasonable

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end-result. If the scenario described here is created to solely illustrate the concept of the lease term, we suggest revising the example to make it realistic. For example, add a noncancelable lease term.

Regarding paragraphs 33 and 38, consider inserting “over the lease term” immediately after “straight-lined as reductions to lease rental expenses” in paragraph 33 and after “straight-lined reductions to rental expense” in paragraph 38. This may emphasize that straight-lining rent expense allocates the rent reduction effect of the concession over the lease term, as in fact it increases rent expense during the concession period (to \$125,000) in relation to the payment amount (\$100,000).

Regarding paragraph 39, the proposed accounting treatment would apply to the scenario where the reporting entity (lessor) reimburses (i.e. “payments made to”) the lessee for the moving costs incurred. The scenario where the lessor pays moving costs “on behalf” of the lessee would require the lessee to record imputed costs for a non-cash transaction and would be more complicated. In the latter case there is a risk for non-cash transactions to go unrecognized in the reporting entity’s general ledger, therefore consider expanding the guidance for the “on behalf” payment. In addition, we are concerned the term “deferred revenue” does not meet the federal definition of that term and ask the Board to consider another liability account, perhaps an account payable, as more appropriate.

Regarding paragraph 62, the disclosure requirements for the balance sheet are as of a point a time (the financial statement date) and do not explain the reason for the changes in balances during the year. Consider revising the interpretation guidance to state that “The disclosures need not specifically identify amounts reclassified. However, a statement that certain leased assets were purchased from the lessor and the related leases were terminated, would help provide context for the disclosure amounts.” This clarification is particularly useful if the right-to-use lease asset and lease liability are reduced to zero at year-end. We also suggest moving the revised sentence at the end of the paragraph for better flow of the interpretative paragraph.

Regarding paragraph 76, in order to avoid misinterpretation, please provide examples of when installation costs are to be considered ancillary charges necessary to place the lease asset into service and when they are not. For example, if the leased asset cannot be operated without being installed, installation costs should be treated as an ancillary charge and included in the initial measurement of the lease asset. If installation of the leased asset is optional, then installation costs must be treated as a separate liability. Also, would there be a distinction in accounting treatment if the installation of the leased equipment is performed by a third party working for the lessor?

Regarding paragraph 77, we consider the effort required to seek and document reliable statistical information on cost per square foot for utility and janitorial costs from local real estate professionals likely to be impracticable. Therefore, we suggest removing the sentence beginning “Additionally, local real estate...”.

Regarding the illustrative version of SFFAS 54, paragraph 50, consider including an example accounting treatment in the TR for a lease where the useful life of the underlying asset is shorter

than the lease term. Such a scenario appears to be counterintuitive. Theoretically, the useful life of the underlying asset would be no less than the lease term.

QFR 3. Are you aware of any implementation issues that are not addressed in the proposed Statement and/or TR? Do any ambiguous areas remain that could lead to challenges with implementing SFFAS 54 requirements? If so, please provide examples of the issues and any references to applicable guidance, and/or topic area(s) related to the issues, and any potential solutions you propose.

The ED TR is completely silent on Enhanced Use Leases. We are reminded of the Basis of Conclusions paragraph A18 of SFFAS 49 which states:

Concerning leases, in consultation with the P3 Task Force and after careful consideration, the Board concluded:

- a. to exclude leases that meet the following two conditions: a) they are not bundled and b) they are entered into using GSA delegated authority. Such leases (1) have no significant P3 risk of loss, (2) are already subject to existing FASAB guidance, (3) have well defined FAR-based contractual processes and remedies in place to address risks associated with landlord-tenant relationships, (4) have contractually capped payments for termination liabilities, and (5) have termination payments that are indemnified by GSA's Building Fund. The Board believes that if a lease is either bundled or not entered into using GSA delegated authority, the provisions of this Statement should apply.
- b. to not broadly exclude Enhanced Use Leases (EULs) except for those meeting the two conditions cited above because they are more oriented towards P3s as a result of (1) possessing special authorities and not being subject to the FAR, (2) often operating under a risk-reward model as opposed to those entity leases that are basically a landlord-tenant relationship and not a risk-sharing partnership, and (3) possibly including ancillary services and in-kind consideration as part of the arrangement or transaction. Because the Board believes that EULs could be encompassed by this Statement, a determination should be made as to whether disclosures are required via the application of the risk-based characteristics.”

We suggest the Board specifically acknowledge and discuss treatment of EULs in the ED TR since there is a lease component to EULs that requires measurement and has potential disclosures under SFFAS No. 54, in addition to the disclosures currently required under SFFAS No. 49.

QFR 4. Are there specific aspects of these proposals that you favor or otherwise wish to provide comments on?

We have no additional comments.

SMC 1. Is the proposed guidance under paragraph 4 of the proposed TR applicable to federal lease scenarios to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

No FMSB member had experience with this type of lease scenario therefore we are not able to provide any applicable feedback.

SMC 2. Please provide feedback regarding the usefulness of the proposed guidance under paragraph 13 of the proposed TR and/or the extent to which you believe the proposed guidance addresses implementation issues related to federal oil and gas leases. Please describe any alternative views or suggestions for improvement.

No FMSB member had specific experience on this topic to provide additional feedback.

SMC 3. Is the proposed guidance under paragraph 95 of the proposed TR potentially applicable to intragovernmental transactions that are similar to a sale-leaseback to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

No FMSB member had specific experience on this topic to provide additional feedback.

SMC 4. Is the proposed guidance under paragraph 98 of the proposed TR applicable to existing and/or potential intragovernmental lease-leaseback transactions to your knowledge? Please provide feedback regarding the usefulness of the proposed guidance in the context of those scenarios and/or the extent to which you believe the proposed guidance addresses implementation issues under potential scenarios. Please describe any alternative views or suggestions for improvement.

While no FMSB member had specific experience on this topic to provide additional feedback, we note the following EUL scenario at a federal reporting entity that has some resemblance and may merit discussion in the TR.

A reporting entity leases land to a developer on which the developer will build a new administrative office building for the federal entity and a commercial structure that entails retail shops, offices, and a parking lot.

Ownership of the commercial complex reverts to the federal reporting entity when the 99-year land lease to the developer runs out. The reporting entity takes ownership of the administrative office building upon completion. There is no cash exchange in the transaction. How should the reporting entity report the lease 1) during the construction period, 2) when the construction is completed, 3) when it takes over ownership of the commercial complex after 99 years? What are the required disclosures?

The FMSB is comprised of 24 members (listed below) with accounting and auditing backgrounds in federal, state, and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. The views of the FMSB do not necessarily represent those of AGA and the local AGA chapters and individual members are also encouraged to comment separately. If there are any questions regarding the comments in this letter, please contact me at (517) 334-8069.

Sincerely,



Craig M. Murray, CGFM, CPA, CIA
Chair, Financial Management Standards Board

cc: Wendy Morton-Huddleston, CGFM, PMP, AGA National President

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