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July 27, 2023

Federal Accounting Standards Advisory Board  
441 G Street NW, Suite 1155  
Washington, DC 20548

RE: Comments on FASAB exposure draft – *Transitional Amendment to SFFAS 54*

The Financial Management Standards Board (FMSB) of the AGA appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's proposed standards. Our responses to the questions posed by the Board are as follows:

*QFR1. Do you generally agree, partially agree, or disagree with the proposed transitional amendment to SFFAS 54 as a whole?*

We generally agree with the proposed transitional amendments. The amendments would provide a substantial accommodation for many agencies by narrowing the scope of contracts evaluated in the first few years of implementation.

*QFR2. Please provide feedback on paragraphs 3-4 and paragraph 5 (96A criteria).*

We found criteria in paragraph 96A to be reasonable and readily understandable.

*QFR3. Please provide feedback on the proposed transitional accommodation provisions under paragraphs 96B-96C.*

We agree that the proposed provisions in paragraph 96B-96C are reasonable. With agencies at different stages of implementation and with different populations of contracts that may be subject to the accommodation, the flexibility allowed by the accommodation period will allow for a systematic staged implementation. Prospective implementation of paragraph 73 for new or modified "embedded leases" will also provide agencies with additional time to renegotiate service contracts/agreements, where possible, with clauses that minimize the accounting and reporting burden.

As intragovernmental leases are excluded from SFFAS 54, this transitional accommodation will not impact intergovernmental eliminations.

*QFR4. Please provide your views on the length and sufficiency of the proposed accommodation period and any views with respect to making the accommodation permanent.*

We agree with the proposed accommodation period. The proposed period of 2 years is of sufficient length to allow agencies with implementation challenges to focus implementation efforts first on known lease contracts (that is, “part B” of the pie as illustrated in Appendix B). We also believe that a two-year period is of sufficient length for agencies to assess their service contracts (that meet the criteria in paragraph 96A) and determine the appropriate accounting treatment for the lease and non-lease components, as applicable (that is, “part C” of the pie as illustrated in Appendix B). As mentioned in paragraph A23, processes and data to identify contracts with lease components should have already been in place. However, in our experience, many agencies had disregarded the prior FASAB guidance that incorporated by reference the standards set by another standard-setting body (that is, FASB) and are now beginning to perform this analysis. In our assessment, many agencies still need to perform a significant amount of work to become compliant. Our group believes that agencies need a firm, near-term date that they can work towards and use to plan accounting efforts and this exposure draft accomplishes this goal.

*QFR5. Please provide feedback on proposed criteria of paragraph 96D.*

We agree with this proposed criteria, as it allows for proper project management and control. Grouping similar contracts based on judgment seems to be the only practical means of applying the accommodation and drafting the related note disclosures, so it is particularly helpful that this provision is called out and is clearly stated.

*QFR6. Please provide feedback on the proposed disclosure requirement.*

We agree with the proposed disclosure requirements. Disclosure of the election and period of accommodation is a necessary disclosure of accounting policy. Furthermore, disclosure in the period immediately following the accommodation period is needed to explain the change in accounting for that reporting period.

*QFR7. Do you agree, partially agree, or disagree with the alternative view?*

While we understand and respect the intent of the alternative view to consider the cost and benefit of standards, we would not be in agreement unless and until it can be demonstrated that the lease components of such contracts are, in fact, trivial, or until it can be articulated how particular factors in the federal environment make the cost and benefits significantly different than the value proposition for this accounting in the private or state and local government sectors.



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In general, we support the goal of convergence with other standard setters whenever it makes sense within the context of the federal environment. We also agree with the inclusion of practical expedients whenever justified. However, we note that the practical expedient provided by the FASB in ASC 842-10-15-37 as mentioned in basis for conclusions (or the practical expedient provided in GASB 87 paragraph 67) does not appear to be the same as the alternative view.

The alternative view seems to be predicated on the assumption that the lease component of these contracts would be clearly trivial. That is, in contracts that primarily contain nonlease components within the federal environment, that the size and nature of any lease components are expected to be inconsequential both individually and in aggregate with other lease components or any other accounting matters. If this is truly the case, there is already relief in place for agencies under the materiality provision of the standard. However, we are concerned that this assumption has not yet been demonstrated, given the lack of analysis for this population of contracts.

Sincerely,

A handwritten signature in black ink, appearing to read 'Scott DeViney', with a large, sweeping flourish at the end.

Scott DeViney, CPA  
Chair, Financial Management Standards Board



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AGA  
Financial Management Standards Board

The FMSB is comprised of the following 22 members 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 purpose of the FMSB is to advocate for the improvement of accounting and financial reporting standards at all levels of government and thus advance government accountability. The views of the FMSB do not necessarily represent those of AGA. Local AGA chapters and individual members are also encouraged to comment separately.

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