January 14, 2019

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116


Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, Leases (Topic 842): Codification Improvements for Lessors.

Proposed Amendments

While we have included targeted suggestions for improvement in our responses to the Questions for Respondents, we support both:

— the proposal for determining the fair value of the underlying asset for lessors that are not manufacturers or dealers; and
— the proposal for presentation of cash received from sales-type and direct financing leases by lessors that are depository or lending institutions in the scope of Topic 942, Financial Services—Depository and Lending.

We believe both proposals will result in a better economic reflection of the affected leasing transactions than the guidance presently in Topic 842, and simplify the application of Topic 842 for the affected lessors. We also believe the proposals will provide more useful information to financial statement users, who we believe would not be well served by either:

— a lessor accounting model for sales-type or direct financing leases that records up-front losses at lease commencement only to be followed by increased interest income over the lease term; or
— a model that presents cash flows received from leases that are effectively loans differently from cash flows received from in-form loans.

Additional Codification Improvement

We are aware of a view that because transition paragraph 842-10-65-1(i) only explicitly exempts entities from the transition disclosure requirements in paragraph 250-10-50-1(b)(2) that it does not exempt them from the interim period transition disclosure requirements in paragraph 250-10-50-3. This view would require entities to provide the disclosures listed in paragraph 250-10-50-3 for the interim periods after adoption (e.g. the first quarter of the adoption year) that they are not required to provide for the first full annual period after the date of adoption.
We do not believe it was the Board’s intent to require interim disclosures when it expressly exempted entities from providing them for the full annual period after the date of adoption, and believe that a minor codification improvement, enacted in this proposed ASU, would resolve the issue. We expect there would be no opposition to its enactment, and believe it can be included in this ASU as it applies equally to lessors and lessees. The codification improvement to paragraph 842-10-65-1(i) could be as follows (underlined text reflects our proposed addition):

i. An entity shall provide the transition disclosures required by Topic 250 on accounting changes and error corrections, except for the requirements in paragraph 250-10-50-1(b)(2) and paragraph 250-10-50-3.

We note that a similar codification improvement was identified and made to paragraph 606-10-65-1(e) in ASU 2016-12 after the issuance of ASU 2016-02. We believe the Board’s logic in BC54 of ASU 2016-12 would equally justify the above-proposed codification improvement to Topic 842.

If the Board decides not to make this codification improvement, we request that the Board explain its decision for not doing so in the Basis for Conclusions to the final ASU; in particular, whether it was the Board’s intent to require entities to provide the interim transition disclosures in paragraph 250-10-50-3 in the year of adoption of Topic 842.

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Our responses to the Questions for Respondents are included in the Appendix to this letter.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Scott Muir at (212) 909-5073 or smuir@kpmg.com.

Sincerely,

KPMG LLP
Appendix – Responses to Questions for Respondents

Determining the Fair Value of the Underlying Asset by Lessors That Are Not Manufacturers or Dealers

Question 1: Should a lessor that is not a manufacturer or dealer establish fair value of the underlying asset as its cost, subject to any trade or volume discounts that apply (acknowledging that if a significant lapse of time occurs between the acquisition of the underlying asset and lease commencement, the definition of *fair value* must be used)? If not, please explain why.

Yes. Consistent with our comments in the cover letter, we support the proposal.

Question 2: Are the proposed amendments operable? If not, please explain why.

Yes. We believe the proposed amendments are operable.

Question 3: Would the proposed amendments result in a reduction of decision-useful information to users of financial statements? If so, please explain why.

We believe this question is best answered by financial statement users. However, we believe the financial reporting that would result from the proposed amendments better reflects the economics of the lease transaction than the manner in which many lease transactions would be accounted for absent the proposed amendments; therefore the proposed amendments should provide information that is more useful to financial statement users.

Presentation on the Statement of Cash Flows—Sales-Type and Direct Financing Leases

Question 4: Should lessors that are depository and lending institutions present “principal payments received under sales-type leases and direct financing leases” in investing activities? If not, please explain why.

Yes. Consistent with our comments in the cover letter, we support the proposal.

Question 5: Are the proposed amendments operable? If not, please explain why.

Yes. We believe the proposed amendments are operable.

Question 6: Would the proposed amendments result in a reduction of decision-useful information to users of financial statements? If so, please explain why.

We believe this question is best answered by financial statement users. However, we believe the financial reporting that would result from the proposed amendments for the affected transactions better reflects their financing nature; therefore the proposed amendments should provide information that is more useful to financial statement users.

Effective date and transition

Question 7: Should the effective date for all lessors within the scope of the proposed amendments be for fiscal years beginning after December 15, 2019, with early application permitted? If no, what effective date should be established and why?

Yes. We believe permitting early application is vitally important to the ASU achieving its objectives.
Question 8: Should the proposed amendments be applied at the date that an entity first applied Topic 842 using the same transition methodology in accordance with paragraph 842-10-65-1(c)? If not, please explain why.

Yes. We believe this is an appropriate requirement. We further note that we do not believe there will be many lessors affected by the proposed amendments that will not elect to adopt them concurrent with their adoption of Topic 842 overall.