January 15, 2019

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2018-310
Re: Proposed Accounting Standards Update, Leases (Topic 842): Codification Improvements for Lessors

Dear Ms. Cosper:

Deloitte & Touche LLP is pleased to comment on the FASB’s proposed Accounting Standards Update (ASU) Leases (Topic 842): Codification Improvements for Lessors.

We continue to support the Board’s efforts to amend certain aspects of ASU 2016-02, Leases (Topic 842), to reduce the costs and complexity of implementing the standard. We also acknowledge and support the critical need to address stakeholder feedback on a timely basis — a primary goal of the proposed ASU. That said, we observe that the proposed ASU retains and carries forward industry-specific guidance. In our view, industry guidance should be incremental as opposed to inconsistent with general guidance. However, in light of the critical need to address respondent feedback and the Board’s final decision not to fundamentally change lessor accounting, we support the proposed amendments that carry forward certain aspects of the application of ASC 840.

Appendix A contains our responses to the proposed ASU’s questions for respondents. Appendix B discusses an additional comment related to a disclosure transition question that has arisen.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact James Barker at (203) 761-3550.

Yours truly,

Deloitte & Touche LLP

cc: Kristin Bauer
    Robert Uhl
Appendix A
Deloitte & Touche LLP
Responses to Proposed ASU’s 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.

We support the Board’s proposed amendment that would provide guidance similar to the fair value exception afforded under ASC 840-10-55-44 for lessors that are not manufacturers or dealers to alleviate a significant change in how these qualifying lessors determine the fair value of underlying assets when transitioning from ASC 840 to ASC 842. However, we observe that the proposed amendments create an industry-specific division in the accounting outcome for different entities (manufacturers and dealers versus others such as finance companies) when the economics of the transaction are the same. Nevertheless, we recognize that the proposed amendments are intended to be consistent with application under ASC 840, although we ask that the Board explain or carry forward its objective and basis for expecting a difference in application for certain entities to the extent possible.

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

We think that the proposed amendments are operable as written since the proposed guidance is similar to the fair value exception provided under ASC 840.

**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 do not believe that the proposed amendments would result in a reduction of decision-useful information.

**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.

We support the proposed amendments related to presentation in the statement of cash flows by depository and lending institutions if they align with a requirement applicable before the adoption of ASC 842. Since the presentation guidance for those entities before the adoption of ASC 842 is an illustrative example in ASC 942 rather than a requirement in ASC 840, we are uncertain about whether application of that presentation guidance would be required under ASC 840. Our understanding of current practice by entities...
within the scope of ASC 942 is to generally follow the example in ASC 942-230-55-2; however, we are not certain whether all such entities follow that example. Accordingly, we encourage the Board to consider feedback from preparers to determine whether the proposed amendments related to presentation by those entities should be a requirement or an option.

In addition, we observe that the proposed amendments would perpetuate industry guidance that is inconsistent with general guidance and are therefore not aligned with the overall standard-setting objectives of the Board. However, we recognize that the proposed amendments are intended to be consistent with application under ASC 840.

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

We think that the proposed amendments are operable as written.

**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 do not believe that the proposed amendments would result in a reduction of decision-useful information.

**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?

We support the effective dates described in the proposed ASU’s Summary and Questions for Respondents. That is, we support the Board’s proposal to provide different effective dates for public business entities and entities other than public business entities. However, we note that proposed ASC 842-10-65-4(a) must be amended to align with the description of the effective dates in the Summary and Questions for Respondents.

As currently drafted, proposed ASC 842-10-65-4(a) states the following:

- **All entities** shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years for those entities within the scope of paragraph 842-10-15-1(a). **All other entities** shall apply the pending content that links to this paragraph for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. [Emphasis added]

The first two sentences of the proposed guidance above are contradictory. We believe that the contradiction is a drafting error and expect that the Board will amend these sentences
in a manner consistent with the following description in the Summary and Questions for Respondents:

The effective date of a final Update of these proposed amendments would be for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years for any of the following:

1. A public business entity
2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
3. An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC).

For all other entities, the effective date would be for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

We support the Board’s proposal to permit early application.

**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.

We agree that once an entity has adopted the proposed amendments, it should apply them retrospectively to when it first applied ASU 2016-02 by using the same transition methodology. We believe that when the Board finalizes its proposed amendments, it should expand the language currently in paragraph BC17 of the proposed ASU to clarify the requirement and the Board's intent.

Specifically, we recommend including the following wording in the final ASU’s Background Information and Basis for Conclusions:

An entity should apply the amendments at the date when it first applied Topic 842 by using the same transition methodology in accordance with paragraph 842-10-65-1(c). That is, an entity that adopts this ASU after the adoption of ASU 2016-02 should apply the amendments retrospectively to the date of adoption of ASU 2016-02. For example, an entity that adopts ASU 2016-02 on January 1, 2019, and adopts this ASU on January 1, 2020, would restate comparative periods to apply the guidance in this ASU to periods beginning on January 1, 2019.
Comment — Applicability of ASC 250-10-50-3 (Interim Period Reporting) in Transition

ASC 842-10-65-1(i) requires an entity to apply ASC 250 disclosure requirements except for those in ASC 250-10-50-1(b)(2), which addresses the annual effect of a change in accounting principle (e.g., the adoption of ASC 842) on income from continuing operations, net income, and other affected amounts for the current period. However, the transition guidance in ASC 842 appears to include the similar interim period disclosure requirements noted in ASC 250-10-50-3. That is, while annual disclosures about income in the year of adoption of ASC 842 are excluded from the scope of the new leasing standard’s transition guidance, related interim disclosures are included within the standard’s scope.

We believe that the Board did not intend to require the related interim disclosures. If the Board agrees, we request that the Board include a technical correction in the final ASU on Codification improvements for lessors (or another forthcoming ASU) to exclude the interim disclosure requirements in ASC 250-10-50-3 from the scope of the transition guidance in ASC 842.