January 15, 2019

Via email to director@fasb.org

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

Re: Leases (Topic 842) - Codification Improvements for Lessors (File Reference No. 2018-310)

Dear Ms. Cosper:

We are pleased to provide comments on the Board’s proposal to provide certain lessors with two narrow scope improvements to the application of Topic 842, Leases. We support the Board’s objective to maintain specific aspects of the leases guidance for certain lessors before and after adopting the new lease standard. Our responses to the Board’s specific questions, along with our suggestions, are provided in Appendix A to this letter.

Appendix B identifies an issue on transition disclosure requirements between interim and annual periods which may warrant further consideration and clarification by the Board. While not related to this proposed Update specifically, we believe there is an opportunity for the Board to clarify, within the final Accounting Standards Update, its intent with respect to those transition disclosures if different from what is currently required.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Thomas Faineteau at (214) 243-2924.

Very truly yours,

BDO USA, LLP
Appendix A

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 agree with reinstating in Topic 842 the fair value exception existing in Topic 840, Leases, for lessors that are not manufacturers or dealers.

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

We agree that the proposed amendments would be operable given that the Board chose not to significantly change the language from Topic 840. As noted in the basis for conclusions of the proposed Update, the fair value exception under Topic 840 has existed and been applied since the issuance of FASB Statement No. 13, Accounting for Leases.

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 the proposed amendments would result in a reduction of decision-useful information. Reinstating the fair value exception for lessors that are not manufacturers or dealers would permit those qualifying lessors to provide financial information that is similar to what they already provide under current U.S. GAAP to users of the financial statements.

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 agree with the proposed amendments that would require lessors within the scope of Topic 942, Financial Services - Depository and Lending, to classify in the statement of cash flows principal payments received from sales-type and direct financing leases within investing activities. However, we would also encourage the Board to consider a broader classification requirement based on the underlying nature of the transaction rather than based on the type of entities. For example, there may be entities outside the scope of Topic 942 that acquire assets and lease those assets for investment purposes, like entities within the scope of Topic 942. However, those entities would continue to be required to classify cash receipts from those leases within operating activities.

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

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 do not believe the proposed amendments would result in any meaningful reduction of decision-useful information to users of a lessor’s financial statements considering that the proposed amendments would allow entities impacted to continue to classify cash receipts from sales-type and direct financing leases on the statement of cash flows in a manner similar to how they classify those cash receipts under current U.S. GAAP.
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 agree with the proposed effective dates, including permitting early adoption of the proposed amendments.

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 agree.
Appendix B

Transition Disclosure Requirements

ASC 842-10-65-1(i) requires entities that adopt the new lease standard to provide the transition disclosures in Topic 250 on accounting changes and error corrections, except for the disclosure requirement in ASC 250-10-50-1(b)(2).

250-10-50-1 An entity shall disclose all of the following in the fiscal period in which a change in accounting principle is made:

b. The method of applying the change, including all of the following:

2. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required.

The exception to the disclosure requirement in ASC 250-10-50-1(b)(2) generally is provided so that entities are not required to maintain two sets of books and records for a specific accounting period.

However, Topic 250 also requires disclosures for interim periods that are similar to the disclosures in ASC 250-10-50-1(b)(2) and that are not specifically excluded in ASC 842-10-65-1(i).

250-10-50-3 In the fiscal year in which a new accounting principle is adopted, financial information reported for interim periods after the date of adoption shall disclose the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts, if applicable, for those post-change interim periods.

Accordingly, we encourage the Board to clarify whether entities should provide the disclosures in ASC 250-10-50-3 in interim periods after adoption of the new lease standard, as currently required. If that is not the Board’s intent, we recommend amending ASC 842-10-65-1(i) to also exclude the disclosure requirement in ASC 250-10-50-3.