Cf. Comment on ASC Topic 842, Proposed Accounting Standards Update – Leases : Codification Improvements for Lessors, Formal responses to questions, technical considerations

Sir:

Please note the following as by the entirety a comment on fair value accounting treatment of underlying assets in a lease for the lessors that are not manufacturers nor dealers. Please also observe the portion of the comment narrative below having to do with presentation of lease items in the statement of cash flows. This narrator has read the ASU on Topic 842 - Leases, and overall is in agreement with the Financial Accounting Standards Board guidance given the following considerations enumerated after the eight questions at hand. As many technical accounting considerations go, and this narrative is no exception, declarations and statements here on this very important topic (responses to the questions are in majuscules) are nor exhaustive nor all – inclusive and are submitted given the comment privilege in order to encourage further and more definitive dialog and discussion on this vital topic concerning the accounting treatment of a significant economic and commercial activity.

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.

QUESTION 1 RESPONSE : IN A SALES - TYPE LEASE IN WHICH ASC 842 WOULD BE APPLIED, FAIR VALUE (“FAIR VALUE IS THE PRICE THAT WOULD BE RECEIVED TO SELL AN ASSET OR PAID TO TRANSFER A LIABILITY IN AN ORDERLY TRANSACTION BETWEEN MARKET PARTICIPANTS AT THE MEASUREMENT DATE.”) ALLOWS FOR A COMPUTATIONAL DIFFERENCE BETWEEN THE PRICE PAID FOR THE LEASE ASSET


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

QUESTION 2 RESPONSE: THE PROPOSED AMENDMENTS BY THE READING OF THIS NARRATOR 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.

QUESTION 3 RESPONSE: SOME FINANCIAL STATEMENT PREPARERS AND USERS HAVE A CONCERN NOT OVER THE ECONOMIC SUBSTANCE OF A TRANSACTION AS IT IS PRESENTED IN THE FINANCIAL STATEMENTS, A PRIMARY CONSIDERATION FOR ACCOUNTING STANDARD - SETTING ALSO, THOUGH GIVEN THE OVERALL CLARIFICATIONS OF TOPIC 842, WITH INTEREST INCOME INVOLVED IN DIRECT FINANCING AND ITS CRITERIA FOR COST; ALONG WITH THE CONSIDERATIONS FOR SALES - TYPE LEASES AND THE SELLING PROFIT OR LOSS, THE QUALIFICATION THIS COMMENTOR SEES AS FIT WOULD HAVE
TO BE A FINANCIAL STATEMENT DECLARATION, INSTEAD OF A CHANGE IN ACCOUNTING POLICY, THAT, E.G., THE FINANCIAL STATEMENT PRESENTATION OF THESE LEASE ITEMS WHILE NOT UNIFORM WITH OTHER FINANCIAL STATEMENTS IN BUSINESS AND INDUSTRY IS NOT FOR THOSE UNINITIATED IN LEASES OF THE DIRECT FINANCING AND SALES - TYPE AND OF THE CHARACTER OF THE LEASED ASSETS INVOLVED.

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.

QUESTION 4 RESPONSE : ALONG WITH INTEREST INCOME THAT WOULD BE PRESENTED AS PART OF OVERAL INCOME IN THE CASH FLOW STATEMENT OF THE LESSOR, PRINCIPAL PAYMENTS FROM LESSEES TO LESSORS SHOULD BE PRESENTED IN THE INVESTING ACTIVITIES AREA OF THE STATEMENT OF CASH FLOWS FOR DIRECT FINANCING AND SALES - TYPE LEASES.

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

QUESTION 5 RESPONSE : THE PROVISIONS OF THIS PART OF ASC TOPIC 842, ARE OPERABLE INSO FAR AS ORDINARY COLLECTIBILITY IS CONCERNED, AND ANY GAIN OR LOSS ON COLLECTING OF THE LEASE PAYMENTS BY THE LESSOR FOR SALES – TYPE LEASE TRANSACTIONS SHOULD ORDINARILY BE PRESENTED IN THE INVESTING ACTIVITIES SECTION OF THE STATEMENT OF CASH FLOWS.

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

QUESTION 6 RESPONSE : DECISION - USEFUL INFORMATION SHOULD BE INCLUDED AS EXPLANATORY LANGUAGE IN THE FINANCIAL STATEMENTS AS TO APPLICABILITY AND USEABILITY OF THE LESSOR'S FINANCIAL STATEMENTS FOR FINANCIAL STATEMENT USERS AND INVESTORS WITH SPECIFIC KNOWLEDGE OF DIRECT FINANCED LEASES AND SALES - TYPE LEASES.

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?
QUESTION 7 RESPONSE: THE EFFECTIVE DATE FOR ALL LESSORS WITHIN THE SCOPE OF THE PROPOSED AMENDMENTS SHOULD BE FOR FISCAL YEARS BEGINNING AFTER DECEMBER 15, 2019 WITH EARLY APPLICATION PERMITTED.

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.

QUESTION 8 RESPONSE: THE TRANSITION RULES FOR IMPLEMENTATION AND APPLICATION TOPIC 842, INCLUDING PARAGRAPH 842 - 10 - 65 - 1 AND PARAGRAPH 842 - 10 - 65 - 4, REGARDING TRANSITION METHODS AND WHEN A LESSOR FIRST APPLIED TOPIC 842 ARE APPROPRIATE FOR THE FINANCIAL STATEMENTS OF LESSORS.

This narrator considers the opportunity to comment on this ASU (Topic 842 – Leases) a privilege insofar as lease accounting and accounting treatment of underlying assets are important in creating more laissez – faire opportunities in a free economy as exists in America. Leases in and of themselves are a great economic and business innovation, and that along with the opportunity availed to economic and other commercial, business and industrial actors goes an ultimate responsibility, and with conservatism, matching, fairness, completeness, accuracy, and other considerations according to the recordation of economic reality, to present the lease transaction properly and prudently in any financial statements according to proper and agreed – upon methodology. Readers of the ASU, Topic 842 – Leases, will understand that leasing is a channel that sometimes wise and again prudent economic and business actors follow in the purposeful creation and accumulation of equity capital and leases themselves are not as is sometimes simply assumed a way to chisel out assets given various incorrect assumptions thereby about the creation of financial advantages and other utilities. This commenter knows those assumptions to be incorrect and this ASU appears to remedy some of the underlying distortions involving those falsities. This commenter as well has read some of the other comments and knows especially with leases that careful accounting and bookkeeping is necessary and this ASU allows for that subject matter to enter into dialog as well, even while relaxing valuation and other factors involved. This commenter does greatly respect the F.A.S.B. for its continuing examination of the topic and its intake of this document and the wisdom of the Board in drafting this Accounting Standards Update on this matter.

Sincerely yours,

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