September 10, 2018

Susan M. Cosper, CPA  
Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116


Dear Ms. Cosper:

The American Institute of CPAs (AICPA) is the world’s largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms’ interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Proposed Accounting Standards Update, Leases (Topic 842): Narrow-Scope Improvements for Lessors (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the effort the FASB has been putting forth in addressing implementation issues and questions that have arisen related to the new lease standard since the issuance of ASU 2016-02. Related to this specific ED, we appreciate that the Board has considered stakeholder feedback related to the complexities involved in assessing tax laws in multiple jurisdictions related to leases. TIC believes that the proposed accounting policy election would be a welcome change and would simplify the accounting for leases and we welcome this simplification to the standard.

SPECIFIC COMMENTS

Question 1: Should a lessor’s accounting for sales taxes and other similar taxes collected from lessees be aligned with Topic 606? If not, please explain why.
Yes, TIC believes that aligning this accounting with ASC 606 would be appropriate.

**Question 2:** Is the proposed accounting policy election, as written in this proposed Update, operable? If not, please explain why.

TIC believes the proposed accounting policy election is operable and would result in additional simplification to the standard.

**Question 3:** Would the proposed accounting policy election result in a reduction of decision-useful information to users of a lessor’s financial statements? If so, please explain why.

TIC does not believe that the proposed accounting policy election will result in a reduction to decision-useful information. Since the overall lease amounts subject to the accounting policy election would net to zero, TIC finds it difficult to see how reporting these items at gross would provide any real value to users. For example, no member of TIC is aware of an instance in which a client has asked for a breakdown of lease expenses between tax related and non-tax related items.

**Question 4:** Should a lessor’s accounting policy election for sales taxes and other similar taxes collected from lessees be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.

TIC would recommend applying to all existing leases at the adoption date for the sake of having consistency among these items in the financial statements. TIC believes that achieving consistency in financial reporting would be worth any additional costs due to accelerated implementation.

**Question 5:** Should a lessor be required to exclude certain lessor costs paid directly by lessees to third parties on behalf of a lessor as variable payments when the uncertainty in the amount is not expected to ultimately be resolved? If not, please explain why.

Yes, TIC believes that requiring a lessor to exclude certain lessor costs paid directly by lessees to third parties on behalf of a lessor as variable payments when the uncertainty in the amount is not expected to ultimately be resolved reduces complexity and provides for consistency with other application paragraphs in Topic 842 as well as with other Topics in the Codification where uncertainty exists.

**Question 6:** Are the proposed amendments for the accounting for certain lessor costs operable? If not, please explain why.

Yes, TIC believes the proposed amendments appear to be operable. However, more guidance on what is or is not readily determinable in this context would be helpful. A strength of Topic 842 is the large number of examples included. It would be helpful to provide another example of a situation where a cost is not readily determinable, along with a discussion of the factors that lead
to that conclusion. In other words, are there factors other than primary responsibility for payment (i.e., lessee or lessor) that should be considered? Are there situations where costs are paid directly by the lessee would be considered readily determinable and included in variable lease payments?

For example, BC 18 states the following:

“The Board decided to propose using the term readily determinable because there already is guidance in Topic 842 using that term (paragraph 842-20-30-3 requires a lessee to use the rate implicit in the lease whenever that rate is readily determinable) and using that term for Lessee-Paid costs would appear to address the operability challenges raised by lessor stakeholders. Specifically, the rate implicit in the lease generally is not readily determinable by the lessee because that rate is based on lessor-specific assumptions or factors (such as deferred initial direct costs paid by the lessor to third parties unrelated to the lessee for which the amount generally will not be known to the lessee). Similarly, the amount of lessor costs paid by a lessee directly to third parties generally would not be readily determinable by a lessee when such costs are affected by lessees specific factors (such as insurance costs paid by a lessee directly to the insurance provider when such costs are affected by lessee-specific factors such as deductibles or whether the underlying asset is insured under an existing and broader umbrella policy). An entity should apply reasonable judgment in determining whether the proposed amendments discussed in paragraph BC17 could be applied to its facts and circumstances.”

TIC believes that incorporating some of the language from the basis for conclusions into the codification, referencing to other areas of Topic 842 that discuss readily determinable, along with adding another specific example as to whether an amount is readily determinable would be helpful in implementation of the proposed update.

**Question 7:** Would the proposed requirement for a lessor to not report certain lessor costs paid directly by a lessee to a third party on behalf of the lessor result in a reduction of decision-useful information to users of a lessor’s financial statements? If so, please explain why.

No, TIC agrees with the cost/benefit analysis in the ED and TIC does not believe this requirement would result in a reduction of decision-useful information to users of a lessor’s financial statements.

**Question 8:** Should the proposed amendment in paragraph 842-10-15-40A to exclude certain lessor costs paid directly by lessees on behalf of a lessor as variable payments be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.

Similar to the response to question 4 earlier, TIC would suggest applying this to all leases for the sake of consistency. Even though it might take some additional work to adopt to all contracts existing as of the adoption date, TIC believes the consistency achieved would result in more decision-useful information.
**Question 9:** Would the proposed amendments clarify the application of paragraph 842-10-15-40? If not, please explain why.

Yes, TIC believes the amendments provide sufficient information to clarify the application of paragraph 842-10-15-40.

**Question 10:** Are the proposed amendments for the accounting for certain variable payments for contracts with lease and nonlease components operable? If not, please explain why.

Yes, TIC believes the proposed amendments for the accounting for certain variable payments for contracts with lease and nonlease components are operable.

**Question 11:** How much time would be needed to implement the amendments in this proposed Update for an entity that early adopts Update 2016-02 before these proposed amendments are finalized? What transition method and transition disclosures should those entities be required to apply (provide)? Please explain your reasoning.

TIC would not object to having similar transition requirements in ASU 2018-11, either in the first reporting period following the issuance of the Update or at the original effective date of Topic 842.

**Question 12:** Should the effective date for the amendments in this proposed Update be aligned with that of Update 2016-02? If not, please explain why.

Yes. TIC believes the effective date for these amendments should be aligned with that of Update 2016-02 as that standard is not yet effective and there are very few private company early adopters that TIC is aware of.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Michael A. Westervelt, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees