

## Thomas Hoey & Associates, LLC

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Technical Director  
File Reference No. 2013- 270  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Board Members and Staff,

Thank you for the opportunity to comment on the proposed Accounting Standards Update—Leases (Topic 842). The proposed Accounting Standards Update was a huge undertaking. It is evident that the FASB members and staff devoted significant effort to the project. We thank you for your effort.

Our comments address various items including:

- organization and content requiring greater clarity,
- content residing in the basis for conclusions but not the standards sections, and
- content residing in inappropriate sections.

Providing greater clarity to the organization and content relates to plain English. Clear paths help users locate relevant content while clear text improves understanding. Users are more likely to comprehend and properly apply effective plain English guidance.

Our comments do not address all areas in the document that might benefit from plain English enhancement. Specifically, the comments do not address all cases where alternative wording could streamline the text. Instead, the comments provide thoughts on some selected areas.

The Appendix includes our detailed suggestions.

Thank you for providing the opportunity to comment on the proposed Accounting Standards Update.

We hope that you find this communication helpful.

Regards,

Thomas Hoey

## Appendix

### Suggested changes to Proposed Accounting Standards Update—Leases (Topic 842)

#### 1) Overall – Implementation Guidance and Illustrations

- a) The example in paragraph 842-10-55-23 is lacking. It does not state whether the consumables purchase clause requires lessee to purchase all consumable items from lessor or whether it establishes a minimum/base level of purchases. If it establishes a "minimum/base" level, it would seem relevant to evaluate whether the minimum/base is greater or less than the customer estimates to use over the term. In addition, the example does not state what happens if customer ceases to purchase consumables from the Supplier.
  - i) If doing so terminates the equipment arrangement whereby the Supplier removes the equipment, then it does not appear to be a lease (i.e., more akin to coffee example).
  - ii) If doing so does not terminate the equipment arrangement, and the customer is able to purchase consumables from other vendors, then it would appear to be a lease.

#### 2) Overall – Transition

- a) The illustrations in paragraphs 842-10-55-70 to 55-92 include transition guidance for lessees and lessors. Links
- b) We suggest adding links from the implementation and transition sections of Subtopics 842-20, 842-30, and 842-40 to paragraph 842-10-65-1 and to the illustrations in paragraphs 842-10-55-70 to 55-92.

#### 3) Lessees – Subsequent Measurement –Type B Leases

- a) The language of paragraph 842-20-35-2(b) contains undefined terms.
  - i) The text of 842-20-35-2(b) is as follows:
    - (1) **842-20-35-2(b)** For Type B leases, a single lease cost, combining the unwinding of the discount on the lease liability with the amortization of the right-of-use asset, calculated so that the remaining cost of the lease (as described in paragraphs 842-20-55-7 through 55-8) is allocated over the remaining lease term on a straight-line basis. However, the periodic lease cost shall not be less than the periodic unwinding of the discount on the lease liability.
  - ii) The language introduces the terms "cost of the lease" and "periodic lease cost". The proposed Accounting Standards Update uses those terms in several places but not as defined terms in the glossary. In addition, in some cases the term "cost of the lease" is preceded by "total" or "remaining". We suggest that the Board define these items as glossary terms to establish a specific meaning and to avoid user confusion with the phrase "cost of the right-of-use-asset" described in 842-20-34-4.

- iii) As shown, paragraph 842-20-35-2(b) includes references to paragraphs 842-20-55-7 and 55-8. Upon review, we believe that the language in those two paragraphs represents standards language, not implementation guidance. The implementation guidance section is not intended to contain standards language but rather to provide guidance to assist with the implementation of standards in previous sections. We suggest moving portions of 842-20-55-7 and 55-8 to the glossary terms and to the contents to paragraph 842-20-35-2(b) and modifying other paragraphs as necessary, as follows:
- (1) Current text of paragraphs:
    - (a) **842-20-55-7** For Type B leases, paragraph 842-20-35-2(b) requires a lessee to recognize a lease cost in each period calculated as the greater of the remaining cost of the lease (calculated at the beginning of each period) allocated over the remaining lease term on a straight-line basis or the periodic unwinding of the discount on the lease liability.
    - (b) **842-20-55-8** Throughout the lease term, the remaining cost of a lease consists of the following:
      - (i) a. Lease payments (determined at the commencement date); plus
      - (ii) b. Initial direct costs (determined at the commencement date); minus
      - (iii) c. The periodic lease cost recognized in prior periods; minus
      - (iv) d. Any impairment of the right-of-use asset recognized in prior periods; plus or minus
      - (v) e. Any adjustments to reflect changes made to the lease liability that arise from remeasuring the liability in accordance with paragraphs 842-20-35-4 through 35-7. The adjustment to the remaining cost of a lease would equal the total change in future lease payments less any amounts recognized in profit or loss at the date of remeasurement of the lease liability.
  - (2) Create the following glossary terms
    - (a) **Lease costs (at beginning of period)** – For Type B leases, consists of
      - (i) Undiscounted lease payments for the lease term ~~(determined at the commencement date)~~; plus
      - (ii) Initial direct costs ~~(determined at the commencement date)~~; minus
      - (iii) The **periodic lease cost** recognized in prior periods; minus
      - (iv) Any impairment of the **right-of-use asset** recognized in prior periods; plus or minus
      - (v) ~~Any adjustments to reflect changes made to the lease liability that arise from remeasuring the liability in accordance with paragraphs 842-20-35-4 through 35-7. The adjustment to the remaining cost of a lease would equal the total change in future lease payments less any~~ Any amounts recognized in profit or loss at the date of remeasurement of the lease liability.
    - (b) **Periodic lease cost** – For Type B leases, the amount is calculated as the greater of
      - (i) the remaining **lease costs (at beginning of period)** ~~(calculated at the beginning of each period)~~ allocated over the remaining lease term on a straight-line basis or
      - (ii) the periodic unwinding of the discount on the **lease liability**.
  - (3) Modify 842-20-35-2(b) as
    - (a) **842-20-35-2(b)** - For Type B leases, a single **periodic lease cost** in each period. ~~lease cost, combining the unwinding of the discount on the lease liability with the amortization of the right of use asset, calculated so that the remaining cost of the lease (as described in paragraphs 842-20-55-7 through 55-8) is allocated over the remaining lease term on a straight-line basis. However, the periodic lease cost shall not be less than the periodic unwinding of the discount on the lease liability.~~
  - (4) Modify terms, references, and glossary links in various paragraphs as necessary
    - (a) 842-20-35-10; 55-18, 55-30, 55-31, 55-58, and 55-65
    - (b) BC34 and Appendix, page 324

#### 4) Lessees – Implementation Guidance and Illustrations

- a) Footnote (a) to 842-20-55-44 contains standards language that does not reside in the standards sections.
  - i) Footnote (a) is as follows:
    - (1) "The lessee could choose to present the right-of-use asset as part of property, plant, and equipment during the [5-year] term of the lease; alternatively, the lessee could choose to present the right-of-use asset separately from property, plant, and equipment."
    - ii) The design of Implementation guidance sections is to provide implementation guidance for standards in previous sections and is not to contain standards language.
    - iii) We suggest including the standards language in section 842-20-45. Once completed, we then suggest including introductory text to footnote (a) such as "As indicated in paragraph 842-20-45-XX,..."
  - b) We believe that paragraph 842-20-55-60 is incomplete. We suggest modifying the final sentence of 842-20-55-60 to elaborate the source and the rationale, as follows:
    - i) According to paragraph 842-20-35-6, the lessee does not reassess the discount rate in this example because a change in variable lease payments that depend on ~~an~~ the index was reflected in determining the discount rate at the commencement date and, therefore, does not require the discount rate to be reassessed.

#### 5) Lessors – Recognition – Type B Leases

- a) Paragraph 842-30-25-2 indicates to recognize payments on a straight-line basis or another systematic basis. The Measurement and Presentation sections do not address lease payments, but only address the underlying asset. This begs the question of how to measure and present the lease payments when the income recognition differs from the payment amount. For example, lease income could be recognized on a straight-line basis while the payments could be front or back loaded. Are there any recognition, measurement, presentation, or disclosure matters to address? At a minimum, we suggest placing an illustrative example in section 842-30-55.
- b) Paragraph 842-30-25-3 does not address capitalizing initial direct costs.
  - i) Current language –
    - (1) **842-30-25-3** A lessor shall recognize **initial direct costs** as an expense over the lease term on the same basis as lease income (as described in the preceding paragraph).
  - ii) Our suggestions
    - (1) The current paragraph language only addresses expensing initial direct costs over the lease term. The language implies capitalizing the initial direct costs but does not address how or when to recognize the capitalized costs. For example,
      - (a) What happens when costs straddle a period end?
      - (b) Should the costs be deferred and capitalized in periods before the period of lease commencement? or
      - (c) Should the costs be expensed and subsequently capitalized in the period of lease commencement?
    - (2) Paragraphs BC132(c) and BC224(Lessor—Type A leases) indicate that an entity would capitalize initial direct costs incurred before the commencement date. But, capitalization treatment is silent for Lessor Type B leases.
    - (3) We suggest revising the current language of 842-30-25-3 to address capitalization. Also, we suggest removing the text related to recognizing the costs as expense over the term. Over the term relates to subsequent measurement. As such, we suggest including the expense language in the subsequent measurement section because the expense is triggered by the amortization of the capitalized costs.

- (4) Assuming that the initial direct costs are to be capitalized, the recognition, measurement and subsequent measurement paragraphs should explicitly address the treatment. For example, we suggest text similar to the following:
- (a) **842-30-25-3** - A lessor of a Type B lease shall recognize **initial direct costs** by capitalizing the amounts as deferred initial direct costs.
  - (b) **842-30-30-10** - A lessor shall measure the deferred **initial direct costs** at the amounts incurred.
  - (c) **842-30-35-15** - A lessor shall amortize the deferred **initial direct costs** as an expense over the lease term on the same basis as lease income. If impaired, the deferred initial direct costs shall be adjusted accordingly...
- c) Paragraph 842-30-25-4 addresses subsequent measurement in the recognition section.
- i) Current language –
    - (1) **842-30-25-4** A lessor shall recognize **variable lease payments** in profit or loss in the period in which that income is earned.
  - ii) Our suggestions
    - (1) Because profit or loss on the variable lease payment will not occur upon lease recognition date, we believe that the text of the paragraph is more beneficial in the subsequent measurement section.
    - (2) We suggest the following changes:
      - (a) **842-30-25-4** - A lessor shall not recognize **variable lease payments** upon lease commencement. Instead, as noted in 842-30-35-16, a lessor shall recognize variable lease payments in profit or loss in the period in which that income is earned.
      - (b) **842-30-35-16** – A lessor shall recognize **variable lease payments** in profit or loss in the period in which that income is earned.

## 6) Lessors – Initial Measurement – Type A

- a) We suggest changes to glossary term – **Rate the Lessor Charges the Lessee**
- i) The initial measurement section does not discuss the rate the lessor charges the lessee.
  - ii) Paragraph BC251 indicates that "When determining the rate charged to the lessee, the lessor *is required* to take into account the terms and conditions of the lease, possibly including an expectation of variable lease payments, if the lease includes such payments." However, the definition for the glossary term **Rate the Lessor Charges the Lessee** fails to include the notion of all variable lease payments.
  - iii) Based on this, we suggest changes to the definition as follows:
    - (1) **Rate the Lessor Charges the Lessee** - A discount rate that takes into account the nature of the transaction as well as the lease terms, and conditions, and all variable lease payments of the lease. The rate the lessor charges the lessee could be, for example, the **rate implicit in the lease**, or the property yield.
  - iv) If not addressed by a change to the definition, we suggest including a paragraph in the initial measurement section that incorporates requirements indicated in paragraph BC251 regarding the required inclusion of variable lease payments.
- b) Overall, we believe that the Initial Measurement section requires both improved navigation (heading) structure and increased clarity regarding variable lease payments. Our suggested navigation and other comments are as follows:
- i) **>Type A Leases**
  - ii) **>> Base model** (New heading ensures that users are aware of content when reviewing TOC)
    - (1) **842-30-30-1** – Refers to the initial measurement of the Type A lease. However, the paragraph fails to include the measurement of profit or loss as indicated in paragraph 842-30-25-1. We suggest that the Initial Measurement section be organized to align with the components in paragraph 842-30-25-1. In addition, we suggest that the items be ordered in roughly the order that users need to process the items. Following the elements in 830-30-25-1 establishes a consistent framework for users that should enhance readability. Consider the following:
      - (a) Modify 842-30-30-1 as follows:
        - (i) **842-30-30-1** At the {add glossary link}commencement date{add glossary link}, a {add glossary link}lessor{add glossary link} shall measure ~~both~~ all of the following:
          1. The {add glossary link}lease receivable{add glossary link} at the present value of the {add glossary link}lease payments{add glossary link}, discounted using the {add glossary link}rate the lessor charges the lessee{add glossary link} (as described in paragraphs 842-20-55-2 through 55-3), plus any {add glossary link}initial direct costs{add glossary link} (as described in paragraphs 842-20-55-5 through 55-6)
          2. The resulting profit or loss on the {add glossary link}lease{add glossary link} as described in paragraph 842-30-30-7.
          3. The {add glossary link} residual asset{add glossary link} as described in paragraph 842-30-30-4.

- iii) **> > Lease receivable** [New heading]
- iv) **> > Initial Measurement of the Lease Payments Included in the Lease Receivable** [indent heading as dependent of previous heading and delete the struck through text because the following paragraphs do not address measurement of the lease payments]
- (1) The language in 842-30-30-2 is vague related to variable lease payments that "depend on a rate". We strongly suggest a more concise phrase that captures the concept. Lease payment can "depend on" numerous factors. Based on our reading of the Board's basis for conclusions, we believe that the Board intends that the index or rate be the sole dependency. If the "sole dependency" is not explicit, users might interpret "depend on" to include amounts that depend on multiple items - performance, use, AND rate. If the FASB's intent is that the index or rate is the sole varying feature (as suggested by BC148-BC155 and BC251-BC256) then we suggest modifying 842-30-30-2(b) as follows:
- (a) **842-30-30-2** At the commencement date, the lease payments included in the lease receivable shall consist of the following payments relating to the use of the **underlying asset** during the **lease term** (as described in paragraph 842-10-25-1) that are not yet received:
- (i) Fixed payments, less any lease incentives payable to the **lessee**
  - (ii) **Variable lease payments** that are fixed except for a variable depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate at the commencement date
  - (iii) Variable lease payments that are in-substance fixed payments
  - (iv) Lease payments structured as **residual value guarantees** (as described in paragraphs 842-30-55-1 through 55-2)
  - (v) The exercise price of a purchase option if the lessee has a significant economic incentive to exercise that option (assessed considering the factors described in paragraph 842-10-55-4)
  - (vi) Payments for penalties for terminating the **lease**, if the lease term (as determined in accordance with paragraph 842-10-25-1) reflects the lessee exercising an option to terminate the lease.
- (2) 842-30-30-3 is redundant with the parenthetical content in 842-30-30-2(d). We suggest replacing 842-30-30-3 with text from BC251 as follows:
- (a) **842-30-30-3** ~~See paragraphs 842-30-55-1 through 55-2 for implementation guidance on lease payments structured as a residual value guarantee.~~ If variable lease payments do not satisfy the requirements of **842-30-30-2(b) and (c)** (for example, if payments based on performance or use of an asset), a lessor shall not include the payments in the measurement of the lease receivable. As described in paragraphs **842-30-30-4** and **30-5**, the lessor shall include the additional variable lease payments when measuring the residual asset.
- v) **> > Rate the Lessor Charges the Lessee** [New heading to address how to compute the rate]
- (1) Insert a the following paragraph beneath the above heading
- (a) **842-30-30-3A** When determining the **rate the lessor charges the lessee**, the lessor shall take into account the terms and conditions of the lease including all anticipated variable lease payments. The payments include additional variable payments that do not meet the requirements of 842-30-30-2 (b) and (c). While the rate shall reflect the additional variable payments, a lessor shall not include those payments when measuring the lease receivable.

- vi) **> > Lease residual** [New heading to aid navigation]
- vii) **> > > Initial Measurement of the Residual Asset** [Indent as dependent to previous heading]
- (1) Paragraph 842-30-30-4 variable B has conditions yet the description does not address those conditions, we suggest modifying as follows:
- (a) At the commencement date, a lessor shall measure the residual asset as follows:
    - (i)  $A + B - C$
    - (ii) A = The present value of the amount the lessor expects to derive from the underlying asset following the end of the lease term, discounted using the rate the lessor charges the lessee (**gross residual asset**).
    - (iii) B = The present value of ~~expected~~ additional variable lease payments not meeting the requirements of paragraphs 842-30-30-2(b) and (c) ~~(as described in paragraph 842-30-30-5)~~.
    - (iv) C = Any unearned profit, determined in accordance with paragraphs 842-30-30-6 through 30-8.
  - (2) There are multiple variations of variable lease payments and it would be helpful to clarify for users. Paragraph 842-30-30-5 has a high fog index. We believe that our preceding suggestion to paragraph 842-30-30-4 variable B eliminates the need for paragraph 842-30-30-5. We suggest deleting paragraph 842-30-30-5.
    - ~~(a) **842-30-30-5** If a lessor reflects an expectation of variable lease payments in determining the rate the lessor charges the lessee and those payments are not included in the lease receivable the lessor shall include in the initial measurement of the residual asset the present value of variable lease payments expected to be earned during the lease term, discounted using the rate the lessor charges the lessee.~~
    - (b) In the event that the Board does not delete paragraph 842-30-30-5, then as a means to enhance user readability, we suggest that the Board
      - (i) Modify paragraph heading **> > > Variable Lease Payments Included in the Rate the Lessor Charges the Lessee** as follows:
        - 1. **> > > Variable Lease Payments Not Included Lease Receivables in the Rate the Lessor Charges the Lessee**
      - (ii) Modify the paragraph to reduce the fog index. For example, incorporate language from BC251 into text similar to the following:
        - 1. In the initial measurement of the residual asset, the lessor shall apply the rate the lessor charges the lessee to compute the present value of the additional variable lease payments that are not included in lease receivables per 842-30-30-2(b) and (c).

- viii) > > **Profit** [Outdent the heading on an equal level as lease receivable and lease residual]
- (1) While not shown here because of the added complexity, we suggest moving the Profit paragraph group to precede the Lease Residual paragraph group because users need to compute the profit before they can compute the residual.
  - (2) Lessor profit paragraphs lack clarity
    - (a) Current language
      - (i) **842-30-30-6** If the fair value of the underlying asset is greater than its carrying amount immediately before the commencement date, a lessor shall allocate that difference between profit relating to the lease, which the lessor recognizes at the commencement date, and unearned profit, which is included in the initial measurement of the residual asset.
      - (ii) **842-30-30-7** A lessor shall calculate the profit relating to the lease recognized at the commencement date as the difference between the fair value and the carrying amount of the underlying asset immediately before the commencement date, multiplied by the present value of the lease payments (discounted using the rate the lessor charges the lessee), divided by the fair value of the underlying asset.
      - (iii) **842-30-30-8** A lessor shall determine the unearned profit included in the initial measurement of the residual asset as the difference between the fair value and the carrying amount of the underlying asset immediately before the commencement date, less the profit recognized at the commencement date.
    - (b) Our suggested changes
      - (i) **842-30-30-6** If the fair value of the underlying asset is greater than its carrying amount immediately before the commencement date, there is an embedded profit in the transaction. a lessor shall allocate that difference between profit relating to the lease, which the lessor recognizes at the commencement date, and unearned profit, which is included. The total embedded profit at the commencement date is the difference between the fair value and the carrying amount of the underlying asset immediately before the commencement date. The lessor shall allocate the total embedded profit between an amount to be recognized at commencement (see paragraph 842-30-30-7) and an amount to be deferred as unearned profit (see 842-30-30-8) in the initial measurement of the residual asset.
      - (ii) **842-30-30-7** A lessor shall calculate the profit to be recognized at the commencement date as:
        1. The total profit (computed as the difference between the fair value and the carrying amount of the underlying asset immediately before the commencement date) multiplied by
        2. The percentage of lease receivable to the fair value of the underlying asset. For this purpose, lease receivable numerator is computed as the present value of the lease payments discounted using the rate the lessor charges the lessee.
      - (iii) **842-30-30-8** A lessor shall determine the unearned profit included in the initial measurement of the residual asset as the total embedded profit ~~difference between the fair value and the carrying amount of the underlying asset immediately before the commencement date,~~ less the profit recognized at the commencement date.

## 7) Lessors – Subsequent Measurement

- a) The following are the current paragraph headings in the proposed Accounting Standards Update section 842-30-35.
  - i) **> Type A Leases**
  - ii) **>> Reassessment of the Lease Receivable**
  - iii) **>> Subsequent Measurement of the Residual Asset**
    - (1) **>>> Impairment of the Lease Receivable and the Residual Asset**
  - iv) **>> Accounting for the Underlying Asset at the End of the Lease Term or on Termination of a Lease**
- b) In many cases, the current headings do not represent the underlying content and will confuse users. Also, we found that certain content within headings better relates to content in other headings. For example, consider the following:
  - i) The heading **>> Reassessment of the Lease Receivable** does not mention Lease Residual, yet the text within the paragraph group includes requirements for remeasuring the residual asset. Additionally, portions of the residual value content is redundant with the content under the heading **>> Subsequent Measurement of the Residual Asset**.
  - ii) The heading **>> Subsequent Measurement of the Residual Asset** has a subparagraph group **>>> Impairment of the Lease Receivable and the Residual Asset**. Users should not be expected to look for impairment of lease receivables within the heading for subsequent measurement of the residual asset.
  - iii) The heading **>> Accounting for the Underlying Asset at the End of the Lease Term or on Termination of a Lease** includes derecognition requirements in 842-30-35-12 and 35-13. Derecognition content should reside in the derecognition section (section 40).

- c) A revised structure representing a more natural flow based on the underlying content may be as follows:
- i) > **Type A Leases**
  - ii) >> **Base Model** (a heading ensures that users are aware of content when reviewing TOC)
    - (1) **842-30-35-1** (include text from 842-30-35-7 in 842-30-35-1(b))
    - (2) **842-30-35-2**
  - iii) >> **Ongoing Reassessment of Underlying Lease Factors**
    - (1) **842-30-35-3 to 35-6**
      - (a) This paragraph group has inverted the natural process flow by placing paragraph 842-30-35-3 as the first paragraph in the group. Users will find the natural flow more understandable. In this case, the first step in the natural flow is to reassess. Then, depending on the reassessment, remeasure as necessary (per 842-30-35-3). The proposed Accounting Standards Update leads with the dependency (i.e. remeasurement) resulting in an awkward flow. The proposed changes entail
        - (i) Placing 842-30-35-3 after 842-30-35-6.
        - (ii) Paragraph 842-30-35-3 is currently the lead paragraph in the paragraph group (currently titled "Reassessment of the Lease Receivable"), yet the paragraph body addresses remeasuring the lease receivable while subparagraph (a) relates to certain cases for remeasuring the residual value and subparagraph (b) relates to both the lease receivable and residual asset. It is not fitting to include residual asset requirements under a heading focused on lease receivables. Users would not, nor should we expect them to, assume that residual value requirement reside within the Lease Receivable paragraph group. The proposed changes entail:
          - 1. Change the heading to address reassessment of lease factors
          - 2. Split the paragraph to more clearly articulate the requirements for remeasurement of the lease receivable and residual asset.
        - (iii) Subparagraphs 842-30-35-5 (a)-(c) are redundant and can be deleted.
        - (iv) Paragraph 842-30-35-6 indicates to determine a new discount rate. However, 842-30-35-5 indicates that a new rate may not be needed. It may be more appropriate to combine the paragraphs to more clearly articulate the requirement. The proposed change entails:
          - 1. Moving the text from 842-30-35-6 to 842-30-35-5 and then deleting 842-30-35-6.
  - iv) >> **Receipt of Variable Lease Payments in Residual Asset Measurement**
    - (1) **842-30-35-7** – text relates to unwinding discount; more relevant if moved to 842-30-35-1(b)
    - (2) **842-30-35-8**
    - (3) **842-30-35-9** – Delete as it is redundant with 842-30-35-8
  - v) >> **Impairment of the Lease Receivable and the Residual Asset**
    - (1) **842-30-35-10 and 35-11**
  - vi) >> **Early Termination of a Lease**
    - (1) **842-30-35-12** – Move to Section 842-30-40 for derecognition
    - (2) **842-30-35-13(a)** - Retain
    - (3) **842-30-35-13(b) and (c)** – Move to Section 842-30-40 for derecognition

## 8) Lessors – Disclosures

- a) Insert the following paragraph group heading and paragraph before paragraph 842-30-50-01 and renumber the current 842-30-50-1. Doing so will help users quickly determine that the following paragraphs apply to Type A and B leases.
  - i) **> Type A and B Leases**
    - (1) **842-30-50-01** Disclosures applicable to Type A and B leases appear in Paragraphs 842-30-50-2 through 50-X. Disclosure requirements unique to Type A and B leases appear in paragraphs 842-30-50-X through 50-Y.

## 9) Illustration headings

- a) Currently several example headings lack differentiation. This requires users to read each example when a more descriptive heading could reduce the effort. We suggest that the example headings are both descriptive and unique, as follows:
  - i) Leases—Overall (842-10-55)
    - (1) We suggest customizing beyond A, B, and C to help users quickly determine the relevance
      - (a) Example 1: Contract for Rail Cars
      - (b) Example 1A: Contract for Rail Cars—Part A
      - (c) Example 1B: Contract for Rail Cars—Part B
      - (d) Example 1C: Contract for Rail Cars—Part C
      - (e) Example 4: Contract for Fiber-Optic Cable
      - (f) Example 4A: Contract for Fiber-Optic Cable—Part A
      - (g) Example 4B: Contract for Fiber-Optic Cable—Part B
      - (h) Example 5: Contract for Energy/Power
      - (i) Example 5A: Contract for Energy/Power—Part A
      - (j) Example 5B: Contract for Energy/Power—Part B
  - ii) Leases—Lessee (842-20-55)
    - (1) We suggest customizing beyond A, B, and C to help users quickly determine the relevance
      - (a) Example 4 — Variable Lease Payments Linked to Performance
      - (b) Example 4A—Variable Lease Payments That Are In-Substance Fixed Lease Payments
      - (c) Example 4B—Variable Lease Payments That Are In-Substance Fixed Lease Payments
      - (d) Example 4C—Variable Lease Payments That Are In-Substance Fixed Lease Payments
      - (e) Example 5 —Variable Lease Payments Dependent on an Index and Variable Lease Payments Linked to Performance
      - (f) Example 5A—Variable Lease Payments Dependent on an Index and Variable Lease Payments Linked to Performance
      - (g) Example 5B—Variable Lease Payments Dependent on an Index and Variable Lease Payments Linked to Performance
  - iii) Leases—Lessor (842-30-55)
    - (1) We suggest customizing beyond A and B to help users quickly determine the relevance
      - (a) Example 3 —Lessor Accounting for Type A Leases—Residual Value Guarantees
      - (b) Example 3A—Lessor Accounting for Type A Leases—Residual Value Guarantees
      - (c) Example 3B—Lessor Accounting for Type A Leases—Residual Value Guarantees

## 10) Subleases

- a) Subleases are addressed in the Basis for Conclusions (BC86-88), but not addressed in the body of Topic 842.
- b) We suggest including sublease language in the scope section of 842-10-15 together with an illustration.