



September 13, 2013

**Via Email to [director@fasb.org](mailto:director@fasb.org)**

Technical Director  
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**File Reference No. 2013-270**

Eide Bailly LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Leases (Topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)*.

We appreciate the Board's effort to converge the international accounting standards related to leases with that of accounting principles generally accepted in the United States of America. This accounting standard update will impact a very high percentage of companies and organizations. Financial statement preparers of varying levels of sophistication from companies and organizations with varying accounting and financial reporting resources will need to effectively interpret and implement the proposed changes.

As noted in our detail responses below, we generally agree with concepts included in the proposal, and commend the Board for the detail implementation guidance and examples included in the proposal. However, we feel that the overall length of the standard will be burdensome as preparers begin to apply it. Accordingly, we ask that the Board consider revisions that will shorten and simplify the proposal as much as possible while retaining the desired concepts.

Our responses to the specific questions presented for comments are as follows:

***Question 1: Identifying a Lease***

*Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.*

We agree with the proposed definition of a lease .

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**Question 2: Lessee Accounting**

*Do you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?*

We agree with the approach as proposed.

**Question 3: Lessor Accounting**

*Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?*

We agree with the approach as proposed.

**Question 4: Classification of Leases**

*Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?*

We agree with the approach as proposed, however we believe that the application of the principles included in these paragraphs may be difficult due to the judgment involved in a number of the terms utilized in these paragraphs, including "insignificant portion", "major part", "substantially all", and "significant economic incentive". While we understand the challenges in specifically defining these terms, we suggest that further consideration be given to the possibility of defining one or more of the terms, or if it is not considered possible and/or appropriate to define the terms, that further implementation guidance be included with respect to their application.

**Question 5: Lease Term**

*Do you agree with the proposals on lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease and why?*

We agree with the proposal as it relates to reassessment, and feel it will address situations in which lease value is significantly affected, however will call for no further considerations in most situations.

We do believe that the Board should give additional consideration to clarifying and/or providing implementation guidance related to situations involving short-term leases with related parties in which there is likely intent and/or economic incentive for the related parties to enter into successive short-term lease agreements. While it appears that consideration of intent and economic incentive is not required in these situations, this could be made clearer in the proposed update.

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**Question 6: Variable Lease Payments**

*Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?*

We agree with the approach as proposed; however believe additional clarification and/or implementation guidance could be provided related to lease agreements including variable lease payments related to “percentage of sales” provisions, which are very common for retail entities.

Specifically, can such a provision be considered to be an “in substance fixed payment” based upon an expectation that the threshold where the variable lease payment begins to apply will be met based upon the historical experience of the entity? For example, if an entity enters into a lease arrangement which requires a variable lease payment based upon a percentage of revenue exceeding \$10,000,000, and the entity has a history of exceeding that level of sales at similar retail outlets, would the entity be required to evaluate the expected variable lease payments as “in substance fixed payments”?

**Question 7: Transition**

*Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?*

*Are there any additional transition issues the Boards should consider? If yes, what are they and why?*

We agree with the proposed guidance for adoption.

**Question 8: Disclosure**

*Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?*

We agree with most areas of this proposal, with the exception of the specific requirement of ‘narrative disclosures’ about leases. We feel that the format of these disclosures does not need to be prescribed, rather can instead be appropriately determined by the preparer of the financial statements.

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**Question 9: Nonpublic Entities (FASB Only)**

*To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:*

- 1. To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.*
- 2. To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.*

*Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?*

We are in agreement that these specified reliefs will help to reduce the costs of implementing the new lease accounting, without unnecessarily sacrificing necessary information considered important to users.

**Question 10: (FASB Only)**

*Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?*

We are in agreement that there should be a special consideration for related party leases and that the economic substance of the leases should be the primary consideration. Accordingly, as noted in our response above to Question 5, we believe further consideration should be given to short-term lease agreements with related parties where there is a likely intent to enter into successive short-term lease agreements.

**Question 11: (FASB Only)**

*Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?*

We agree with the approach as proposed.

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**Question 12: Consequential Amendments to IAS 40**

*The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40, Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.*

*Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?*

We are in agreement with the amendment as noted to IAS 40.

Once again, we appreciate the opportunity to comment on this proposal. We would be pleased to discuss our comments with the FASB staff. Please direct any questions on our comments to Brian Bluhm, Director of Assurance Services, at 612.253.6590.

Sincerely,

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Eide Bailly LLP