



**Deloitte & Touche LLP**  
695 East Main Street  
Stamford, CT 06901-2141  
  
Tel: + 1 203 708 4000  
Fax: + 1 203 708 4797  
[www.deloitte.com](http://www.deloitte.com)

October 19, 2017

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 2017-290**

**Re: Proposed Accounting Standards Update, *Land Easement Practical Expedient for Transition to Topic 842***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Land Easement Practical Expedient for Transition to Topic 842*.

We support the Board's efforts to provide transition and implementation guidance with respect to applying ASU 2016-02, *Leases (Topic 842)* ("ASC 842"), to land easements. We believe that the proposed ASU would further the Board's efforts by (1) providing transition relief in the form of a practical expedient to existing and expiring land easements (collectively, "existing land easements") and (2) clarifying that land easements entered into (or existing land easements modified) on or after the effective date of the new leasing standard (collectively, "new land easements") must be assessed under ASC 842. We believe that the transition practical expedient will provide critical relief to preparers in a number of industries who would otherwise have faced significant challenges in achieving a timely adoption of ASU 2016-02.

With respect to the accounting for new land easements, we note that the Board chose not to address the ASC 842 implementation issues associated with easements (e.g., unit of account) that were raised by constituents at the July 12, 2017, roundtable. We left the roundtable with a strong impression that the Board viewed this as a judgment area and therefore could understand diversity in practice in the identification of the unit of account. Specifically, it was noted that some entities would identify the entire land parcel subject to the easement, while others may identify smaller parcels that are physically occupied by the easement holder (e.g., the land on which the concrete footing for a windmill resides). That impression was reinforced by comments made during the FASB's August 2, 2017, board meeting. Nevertheless, we are aware of views in practice that an entity must look to the

smaller unit for the lease evaluation. If in fact the Board believes that this is an area requiring the application of judgment and one in which diversity in practice could be expected and accepted, we would encourage the Board to consider explaining this in the final ASU's Basis for Conclusions.

The appendix below contains our responses to the proposed ASU's questions for respondents and suggests certain modifications to the proposed guidance.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact James Barker at (203) 761-3550.

Yours truly,

Deloitte & Touche LLP

cc: Stephen McKinney

Robert Uhl

**Appendix**  
**Deloitte & Touche LLP**  
**Responses to Proposed ASU's Questions for Respondents**

**Question 1:** *Would the land easement practical expedient in this proposed Update reduce the cost and complexity to implement Topic 842? If not, please explain why.*

We support and agree with the Board's proposal to clarify that new land easements must be assessed in accordance with ASC 842 to determine whether the arrangements are, or contain, leases. We believe that the amendments to Example 10 (ASC 350-30-55-29 through 55-32) of ASC 350-30, *Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill*, will help to clear up existing diversity in practice when an entity is determining the appropriate accounting treatment for land easements. The proposed amendment to ASC 350-30-55-30 helps reinforce the scope hierarchy in GAAP with respect to such easements, and as a result, all new land easements will first be assessed under ASC 842 to determine whether the arrangements are, or contain, leases.

In addition, we support the Board's efforts to establish a practical expedient for existing land easements so that entities may elect not to assess whether existing land easements are or contain leases when transitioning to ASC 842. We believe that the efforts will result in a reduction in the cost and complexity of implementing ASC 842. Nevertheless, we believe that before the Board finalizes the amendments, it may need to modify the wording of the proposed land easement practical expedient to clarify its intent with the transition relief to be provided.

An entity that elects the proposed practical expedient in ASC 842-10-65-1(gg) is relieved from applying ASC 842 to evaluate all existing land easements *that were not previously assessed in accordance with ASC 840*. However, on the basis of our participation in the Board's July 12, 2017, roundtable on easements, and given comments made by other participants at that roundtable, we understand that it was the Board's intent to provide transition relief for existing land easements that were not previously *accounted for under* ASC 840. We believe that providing the practical expedient to existing land easements that were not *accounted for under* ASC 840 is significantly different than providing the practical expedient to land easements that were not *assessed under* ASC 840. For example, some entities may have evaluated existing land easements under ASC 840 and concluded that they were not leases. Those companies *assessed* their easements under ASC 840 but did not ultimately *account* for them as leases. Accordingly, the Board's use of the term "assessed" will narrow the population of entities that may avail themselves of the practical expedient, which we believe may be inconsistent with the Board's intent.

In summary, we believe that the practical expedient as proposed is not available to entities that had, and applied, a historical accounting policy indicating that existing land easements are *subject to evaluation* in accordance with the scoping guidance in ASC 840 before considering other GAAP. If it was the Board's intent to provide transition relief to entities with existing land easements that were not *accounted for under* ASC 840, then we would support a corresponding change to the language in ASC 842-10-65-1(gg) for the proposed practical expedient.

Accordingly, we would suggest that the FASB consider the following change to the proposed guidance in ASC 842-10-65-1(gg) (deletion in ~~striketrough~~; additions underlined):

An entity also may elect a practical expedient to not assess whether existing or expired land easements that were not previously ~~assessed~~accounted for under Topic 840 on leases are or contain a lease under this Topic. For purposes of (gg), a land easement (also commonly referred to as a right of way) refers to a right to use, access, or cross another entity's land for a specified purpose. This practical expedient shall be applied consistently by an entity to all its existing and expired land easements that were not previously assessed under Topic 840. This practical expedient may be elected separately or in conjunction with either one or both of the practical expedients in (f) and (g). An entity that elects this practical expedient for existing or expired land easements shall apply the pending content that links to this paragraph to land easements entered into (or modified) on or after the date that the entity first applies the pending content that links to this paragraph as described in (a) and (b). An entity that previously assessed existing or expired land easements under Topic 840 shall not be eligible for this practical expedient for those land easements.

**Question 2:** *Would the proposed amendments require transition provisions or an effective date that is different from those for Topic 842? If yes, please explain what transition requirements and/or effective date you would recommend and why.*

We believe that the proposed ASU's transition provisions and effective date should be the same as those in ASU 2016-02. If the concern expressed in our response to Question 1 is addressed, we support aligning the transition provisions and effective date of the proposed ASU with those of ASU 2016-02.