FICPA Florida Institute of Certified Public Accountants

November 19, 2020

FASB Technical Director
401 Merritt, PO Box 5116
Norwalk, CT 06856-5116

Via e-mail: director@fasb.org

Re: Proposed Accounting Standards Update, *Leases (Topic 842) Targeted Improvements*

Dear Technical Director:

The Accounting Principles and Auditing Standards Committee (the "Committee") of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced proposed ASU. The FICPA has more than 19,600 members, with its membership comprising primarily CPAs in public practice and industry. The Committee comprises 26 members, of whom 42% are from local or regional firms, 19% are from large multi-office firms, 19% are sole practitioners, 4% are in international firms, 8% are in education, and 8% are in industry. Regarding targeted improvements under consideration, the Committee has the following comments to the Board's questions numbered below:

Issue 1: Sales-Type Leases with Variable Lease Payments— Lessor Only

Question 1: ***Are the amendments in this proposed Update operable? Why or why not?***

Comment: The Committee believes that the amendments in this proposal are operable because the lessor already has the information of the underlying assets associated with the variable lease payments. Under the proposal, the lessor would not derecognize such assets, but instead would continue to depreciate the assets over their useful life, while recognizing the variability in the associated operating lease payment as it occurs. The Committee also believes that implementation guidance that supports paragraph 842-10-25-3A (i.e. an example of a lease with variable lease payments that do not depend on an index or rate) would assist users in the application of the proposed guidance.

Question 2: ***Should a lessor be required to classify and account for a sales-type lease with predominantly variable lease payments that do not depend on a reference index or a rate as an operating lease? Why or why not?***

Comment: The Committee believes the lessors should be required (as opposed to making an election) to classify sales-type leases with predominately variable lease payments that do not depend on a reference index or a rate as operating leases as this will eliminate the recognition of a Day 1 loss by the lessor as of the lease commencement date and also align the classification guidance in ASC 842 for lease arrangements with such variable lease payments with the lease guidance in IFRS 16.

Question 3: ***Should "predominant" be the threshold for determining when a lessor should classify a lease with variable payments that do not depend on a reference index or a rate as an operating lease?***

Alternatively, would another threshold be more appropriate and operable (for example, "substantially all")? Please provide your rationale.

Comment: The Committee believes that "predominant" is the appropriate threshold, in contrast to "substantially all", as used within the Topic 842 and which is interpreted to mean "90% or more." The Committee believes the substance of the lease arrangements impacted by the proposal requires less of a threshold than "substantially all" in order for the proposed guidance to be meaningful. Furthermore, paragraph B12 of the proposal clarifies that the term "predominant" is expected to mean "majority." Accordingly, if the variable payments are expected to be greater than the fixed lease payments, the lessor would account for the arrangement as an operating lease.

Question 4: ***Would the proposed amendments provide improved decision-useful information for users of financial statements? Why or why not?***

Comment: The Committee believes that the proposed amendments would be decision-useful for users of the financial statements because the amendments will eliminate Day 1 losses recognized by lessors under the current guidance in ASC 842, which distorts the economic performance and financial statement impact of leases with variable payments that do not depend on an index or reference rate.

Issue 2: Option to Remeasure Lease Liability—Lessee Only

Question 5: ***Are the proposed amendments operable? Why or why not?***

Comment: The Committee believes that the amendments in this proposed lease are operable because IFRS 16 currently requires a lessee to remeasure the lease liability in subsequent periods when a change to the lease payments resulting from a reference index or rate takes effect, while remeasurement of the lease liability under ASC 842 is currently not allowed when the only change is a change in the reference index or rate. The Committee also believes that the implementation costs of the amendments in the proposal may be more significant for entities with larger lease portfolios.

Question 6: ***Should a lessee be provided with an option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based? Why or why not?***

Comment: The Committee believes that lessees should be provided with an option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based in order to converge with the lease guidance in IFRS 16, thereby eliminating the need for an entity, who reports under both ASC 842 and IFRS 16, to keep two different sets of leasing records. The Committee also notes that, for those entities that select the option to remeasure lease liabilities solely for a change in a reference index or a rate, financial statement comparability with those entities who do not select such an option should be addressed.

Question 7: ***Should a lessee be required to make an entity-wide accounting policy election to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based? Why or why not? If not, at what level should that accounting policy election be required to be applied?***

Comment: The Committee believes that a lessee should be required to make an entity-wide accounting policy election to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based in order to establish an appropriate and uniform level for the unit of account. The Committee interprets the term "entity-wide" to mean all leases within the entity and that a level lower than entity-wide (e.g. lease-by-lease basis) would result in inconsistent application of the amendments in the proposal.

Question 8: ***Would the proposed amendments provide improved decision-useful information for users of financial statements? Why or why not?***

Comment: The Committee believes that the proposed amendments would provide improved decision-useful information for users of financial statements by allowing for the remeasurement of the lease liability, which provides the most updated and timely information about a lessee's future cash obligations, as stated in paragraph BC 16 of the proposal. In addition, the Committee believes the proposed amendments will be beneficial to the users of the financial statements by providing relevant, consistent, and comparable information.

Question 9: ***Would the comparability of information be significantly affected by the option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based?***

Comment: The Committee believes the amendments in the proposal would significantly increase the comparability of information for those entities required to report lease arrangements under both ASC 842 and IFRS 16 by convergence of the guidance in ASC 842 with that in IFRS 16. For those entities not required to report under IFRS 16, the Committee believes that the comparability of information would not be significantly affected by the option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are made because (1) normally, incremental changes in such rates or indexes are not significant and (2) any incremental change in the liability is recorded as of offset to the right-of-use asset; thus, there is no immediate impact to earnings. The Committee also believes that if the amendments in the proposal are applied consistently on an entity-wide basis with disclosure, the degree of lack of comparability with those entities who do not select the option should be transparent.

Issue 3: Modifications Reducing the Scope of a Lease Contract

Question 10: ***Are the proposed amendments operable? Why or why not?***

Comment: The Committee believes that the proposed amendments are operable as such amendments will reduce the cost and complexity for entities that are currently required under ASC 842 to account for a reduction in scope of a lease as a lease modification. The Committee notes that it will be critical for the entity to determine, in accordance with paragraph 842-10-25-8B, whether those remaining components are economically unaffected in such way that exemption from the modification framework apples. Further, the proposed amendments provide an operational model which does not apply modification accounting to components that are not terminated, thus providing a continuous and consistent accounting treatment for these components that are not economically affected by the modification (i.e. reduction in scope of the lease contract).

Question 11: ***Would the proposed amendments provide improved decision-useful information for users of financial statements? Why or why not?***

Comment: The Committee believes that the proposed amendments would provide improved decision-useful information for users of financial statements because, for those lease components not economically affected by a reduction in the scope of the lease, there will not be a potential unnecessary change in lease classification for such components solely due to the passage of time as a result of applying the accounting modification model (e.g. a lessor reclassifying a sales-type lease or direct financing lease to an operating lease). However, the Committee is concerned that the requirement to apply the modification accounting model, as opposed to the derecognition guidance, to modified components that are not terminated on the modification date, as discussed in paragraph 842-10-25-8C(b), (e.g. due to a notice period before termination) would impose undue cost and complexity for the lessor/lessee and may not provide improved decision-useful information.

Question 12: ***Are there other aspects of the modification accounting model in Topic 842 that could be improved without compromising the decision usefulness of the information provided?***

Comment: The Committee is not aware of any other aspects of modification accounting which could be improved without compromising the decision usefulness of the information provided, but supports efforts to simplify the modification accounting model for both lessors and lessees.

Transition

Question 13: ***For entities that have not adopted Topic 842 by the effective date of a final Update of these proposed amendments, should the proposed amendments be applied at the date that an entity first applies Topic 842 using the same transition methodology in accordance with paragraph 842-10-65-1(c)? Why or why not?***

Comment: The Committee agrees that for entities that have not yet adopted Topic 842 by the effective date of a final Update, the proposed amendments should be applied when they first adopt ASC 842, using a transition method that would be either (1) retrospective for each period in the financial statements, with the cumulative effect of transition recorded at the beginning of the earliest period presented, or (2) retrospective at the beginning of the period of adoption, with a cumulative effect of transition recorded at the beginning of the period of adoption. As the targeted improvements within the proposal will likely require cost and resources to adopt, the Committee believes it is more practical to adopt the amendments simultaneously with the transition to Topic 842.

Question 14: ***For entities that have adopted Topic 842 by the effective date of a final Update of these proposed amendments, should the proposed amendments be applied either retrospectively or prospectively as described in this proposed Update? Why or why not?***

Comment: The Committee agrees that for entities that have adopted Topic 842 by the effective date of a final Update, the ability for the entity to independently adopt and have a separate transition method (i.e. retrospective/prospective) for each of the proposed amendments is appropriate, given each entity's facts and circumstances, since their respective adoption of ASC 842. The Committee also believes that early adoption of the proposed amendments by entities who have already adopted ASC 842 is appropriate, given that these entities may have the necessary resources and systems in place for early adoption of the prosed amendments. Further, the Committee believes that the benefits derived from the proposed amendments are likely to outweigh any administrative burden imposed to retrospectively or prospectively adopt this guidance.

The Committee appreciates this opportunity to respond to the proposed statement on accounting standards. Members of the Committee are available to discuss any questions or concerns raised by this response.

Respectfully submitted,

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Additional Committee member coordinating this response:

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