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December 4, 2020

Ms. Hillary Salo  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**RE: Proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements*  
(File Reference No. 2020-700)**

Dear Ms. Salo:

We appreciate the opportunity to comment on the proposed ASU, *Leases (Topic 842): Targeted Improvements*.

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

We support the Board's proposal to require a lessor to classify a lease with payments for the right to use the underlying asset that are predominantly variable and do not depend on a reference index or a rate as an operating lease. We believe the Issue 1 proposal would provide a more economic reflection of the leases likely to fall within its scope. Recognizing a selling loss at lease commencement (Day 1 loss) solely due to the predominantly variable payment structure for the lease is an uneconomical reflection of the transaction that does not provide useful information to financial statement users.

The preceding notwithstanding, we believe the Board should consider expanding the scope of the proposal to include all lessor arrangements for which excluding expected variable payments from the measurement of the lease receivable were the lease to be classified as a sales-type lease gives rise to a Day 1 loss. We believe recognizing a Day 1 loss is an uneconomical reflection of such lease arrangements regardless of whether variable payments are the predominant payments. We do not believe expanding the scope of the proposal in this manner would increase the complexity of applying it. We outline the details of this alternative scoping option in our response to Question 2 of the Questions for Respondents in the Appendix to this letter.

**Issue 2: Option to Remeasure Lease Liability—Lessee Only**

The optionality that would be provided by this proposal inherently results in non-comparable financial statement information. We believe financial statement users are better positioned to provide input to the Board as to whether this increased non-comparability significantly reduces decision-useful information.

If the proposal moves forward, we believe the option should be an entity-wide election rather than a more targeted election (e.g. by class of underlying asset or on a geographical basis), which we believe would exacerbate the non-comparability among entities that would exist even with an entity-wide option.

Additionally, we encourage the Board to ensure that the proposal is truly an option to converge with the relevant remeasurement requirements in IFRS 16 on leases by using consistent language and arriving at converged outcomes in examples. While we believe the proposal generally accomplishes that goal, we are

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aware that some stakeholders are interpreting minor differences in the words of the proposed amendments to Example 25 (Case A) and those in Example 14A in IFRS 16 (paragraph IE6) as substantive. Therefore, to ensure the intended outcome of a convergence option, we suggest the Board create a new example (e.g. Example 25A) that is identical to Example 14A in IFRS 16, in lieu of the proposed amendments to Example 25 (Case A) in paragraph 842-10-55-231A. Our rationale for this suggestion is consistent with the Board's own rationale in paragraph BC194 of ASU 2016-02 for reverting to the use of 'reasonably certain', rather than 'significant economic incentive', as the threshold for including renewal options in the lease term.

### **Issue 3: Modifications Reducing the Scope of a Lease Contract**

We believe it is logical and appropriate to conclude that, just as adding a lease component to a contract can be accounted for as economically separate from the existing contract, removing a lease component *from* a contract can also be accounted for as economically separate from the accounting for the remaining lease components. We also believe the Board's proposed construction of the economic effects evaluation is conceptually sound, and grounded in the core tenets of Topic 842 that:

- a change to the consideration for a lease is a lease modification;
- the consideration for a lease can be an allocated amount (wholly or partially); and
- the consideration in the contract must be entirely allocated to items that meet the definition of a component of the contract.

Therefore, in concept, we support this proposal. However, we believe the Board should not finalize this proposal before completing deliberations about whether to make other substantive changes to the modification accounting model. It appears that this proposal *could* be redundant or ultimately conflict with other changes the Board may consider for lease modification accounting. For example, the paragraph 842-10-25-8B(c) test *may* significantly interrelate with one or more of the possible changes discussed at the recent Topic 842 roundtables.

- A 'minor' modification screen might permit a simplified accounting model that is similar to the proposed accounting for economically unaffected remaining lease components, and it may be that for many termination modifications in which the remaining lease components are economically unaffected, the modification would also be considered minor.
- Termination penalties guidance akin to that in Topic 840 *may* result in allocating a termination penalty entirely to the terminated lease component(s), i.e. without allocation to remaining lease components, similar to how it appears those penalties will be allocated under the proposal if the remaining lease components are economically unaffected.
- A decision to change how lease classification is reassessed may affect one of the principal concerns of those that requested this proposal.

We do not know whether the Board will consider changes to the modification accounting model in addition to the Issue 3 proposal, and if so, what those will be. Those in the preceding paragraph are hypothetical examples of *possible* changes that in our view could affect this proposal. There may be other examples. We understand that some stakeholders would prefer for the Board to move forward with this proposal regardless of other possible modification accounting changes. However, we believe the Board should resist changing the modification accounting model on a piecemeal basis so that it can consider the implications of the proposal and any other changes on a more holistic basis.

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That said, if the Board decides not to make additional modification accounting changes, we support moving forward with the Issue 3 proposal, subject to our suggestions in the Appendix to this letter on clarifying application.

\* \* \* \* \*

Our responses to the Questions for Respondents are included in the Appendix to this letter.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or [kbacom@kpmg.com](mailto:kbacom@kpmg.com), or Scott Muir at (212) 909-5073 or [smuir@kpmg.com](mailto:smuir@kpmg.com).

Sincerely,

A handwritten signature in black ink that reads "KPMG LLP". The letters are bold and slightly slanted, with a casual, professional appearance.

KPMG LLP

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## Appendix – Responses to Questions for Respondents

### *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?**

We believe the proposed amendments are operable, but suggest more directly linking the words in paragraph 842-10-25-3A to those in paragraph 842-10-30-5 to avoid confusion about whether the variable payments in question are only those that relate to the lease (i.e. and not those that relate to non-lease components or other lease components). We understand this was the Board's intent. While these changes are minor, we believe there is no question in practice that the payments described in paragraph 842-10-30-5 refer to only the payments for the lease, and while using all payments or just those for the lease in this context may not matter in many cases, it could matter in cases in which the lessor allocates variable payments to only one or some components of the contract (paragraph 842-10-15-39).

*842-10-25-3A Notwithstanding whether any of the criteria in paragraph 842-10-25-2 are met, a lessor shall classify a lease with payments for use of the underlying asset that are predominantly variable ~~lease payments~~ and do not depend on an index or a rate as an operating lease at lease commencement.*

In addition, we believe certain discussions in the basis for conclusions to the proposed ASU are important and suggest that the Board retain them in a final ASU.

- The final three sentences in paragraph BC12, which clearly explain how to interpret the predominant threshold in the context of the binary evaluation in paragraph 842-10-25-3A.
- The explanation in paragraph BC15 that the proposal 'would not affect the principles related to transfer of control in Topic 842 (or lease classification criteria in paragraph 842-10-25-2) but, rather, would be a practical solution only for lessors with a day-one loss issue.' We believe this is important to state in this manner so that there is no misperception that the nature of payments (or other consideration) as variable or fixed affects when or whether control of goods or other nonfinancial assets transfers to an entity. The classification principle in Topic 842 is based on the same notion of transfer of control as exists in Topic 606 and Subtopic 610-20 and is used elsewhere in Topic 842. Any notion contrary to what we highlight from paragraph BC15, perceived or stated, may confuse what has otherwise been clear about the concept of transfer of control.

#### **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?**

Yes. As stated in our cover letter, we support the proposal. We believe the proposal would improve GAAP under Topic 842 as it would result in a financial reporting outcome that better reflects the economics of the affected transactions, and should not be difficult to apply. Further, we believe it likely addresses the concerns of those stakeholders that have raised the issue to the Board.

However, as also stated in our cover letter, we would support expanding the scope of the proposal to include all lessor arrangements for which excluding expected variable payments from the measurement of the lease receivable would give rise to a Day 1 loss if the lease were classified as a sales-type lease, regardless of whether variable payments are predominant. If a Day 1 loss that would result from

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recognizing the net investment in the lease and derecognizing the underlying asset can be attributed to the variable nature of a portion of the payments for the lease, i.e. the Day 1 loss would not exist if all or a portion of the expected variable payments were fixed (or in-substance fixed), we believe it would be reasonable to similarly classify the lease as an operating lease. We do not believe the financial reporting benefit of avoiding a non-existent Day 1 loss is isolated to lease arrangements for which the variable payments are predominant.

We do not believe it would be more complex to apply this alternative guidance. The first necessary condition would merely compare the carrying amount of the underlying asset to the measurement of the net investment in the lease that would result from sales-type lease classification. This should be simple to do because, where a Day 1 loss would result, the net investment in the lease would be an undiscounted amount because of the 0% floor to the rate implicit in the lease. The second condition (i.e. that the Day 1 loss arises *because of* the prohibition on including estimated variable lease payments in the measurement of the lease receivable) should generally require no incremental estimates of variable payments above what would be required under the proposal to establish that the expected variable payments are ‘predominant’.

The following reflect possible edits to paragraph 842-10-25-3A to effect this alternative scoping. We believe this alternative scoping would also enhance convergence of the proposal with classification outcomes under IFRS 16, which paragraph BC10 of the proposed ASU expressly states as a benefit of the proposal. This is because we do not believe predominant practice under IFRS 16 requires the payments for the lease to be predominantly variable for operating lease classification to result under paragraph 65 even if it is more likely to occur when that is the case.

*842-10-25-3A Notwithstanding whether any of the criteria in paragraph 842-10-25-2 are met, a lessor shall classify a lease as an operating lease when the carrying amount of the underlying asset exceeds the measurement of the net investment in the lease that would result from sales-type lease classification at the commencement date as a direct result of excluding expected variable payments for the lease that do not depend on an index or a rate from the measurement of the lease receivable ~~with payments that are predominantly variable lease payments and do not depend on an index or a rate as an operating lease at lease commencement.~~*

**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.**

As discussed in our response to Question 2, we believe an alternative scoping of this proposal would be appropriate. However, if the Board decides not to revise the scope of the proposal, we believe ‘predominant’ is the next best alternative. We believe it is operable both as a consequence of its use elsewhere in Topic 842 and in Topic 606, and the discussion in paragraph BC12 of the proposed ASU (see our response to Question 1).

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

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We believe this question is best addressed by financial statement users. However, we believe the financial reporting that would result from the proposed amendments better reflects the economics of the affected lease transactions than the reporting under the existing guidance in Topic 842.

***Issue 2: Option to Remeasure Lease Liability—Lessee Only***

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

Yes. We believe the proposed amendments are operable. We believe the amendments are understandable and would achieve the intended outcome of creating an option for dual reporters to measure their lease payments and lease liabilities for leases that include variable lease payments that depend on an index or rate consistent with IFRS 16.

We have previously highlighted to the FASB staff that there is diversity in the application of the guidance in IFRS 16 on remeasuring lease payments and lease liabilities for leases that include variable lease payments that depend on an index or rate. That diversity may extend to US GAAP reporting entities electing the proposed option. However, we do not believe the Board should attempt to address that diversity through amendments that are not consistent with the corresponding guidance and examples in IFRS 16. We believe final amendments should use language and examples that are consistent with IFRS 16, identical where feasible. Please refer to our comments on this, specifically on Example 25 of the proposed ASU and Example 14A in IFRS 16, in our cover letter.

**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?**

See our comments in the cover letter. In addition, we encourage the Board to consider whether it intends to propose other amendments to Topic 842 that might affect this proposal. As discussed in our response to Question 12, changes to the modification or reassessment guidance in Topic 842 may create new measurement differences with IFRS 16 for lease payments and lease liabilities. In either case, or if changes are made to the lessee discount rate guidance in Topic 842 (also discussed at the recent leases roundtables), this proposal may not achieve its principal stated objective of permitting a converged lease liability measurement for dual reporters, and if not (i.e. if the lease liability will be measured differently under Topic 842 and IFRS 16 for other reasons, such as differences in how to determine, or when to update, the discount rate for the lease or when to reassess the lease term), the non-comparability among US GAAP reporters introduced by the option may not be justified.

**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?**

Consistent with our comments in the cover letter, we believe the option should be elected entity-wide for all of the entity's leases with variable lease payments that depend on an index or rate in which it is the lessee. We believe any other approach would unduly increase the non-comparability among lessee entities that the proposal would already create (see our response to Question 9).

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

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As outlined in our cover letter, we believe the Board should solicit the views of financial statement users on this question.

**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?**

Yes. The differences between the remeasurement requirements for variable lease payments that depend on an index or rate under Topic 842 and IFRS 16 may result in significantly different balance sheet amounts as well as significantly different disclosure amounts of lease cost and variable lease cost. This was clearly illustrated in publicly available Board agenda papers produced by the FASB and IASB staffs during the development of Topic 842 and IFRS 16.

As outlined in our cover letter and in our response to Question 8, we believe it is the purview of financial statement users to communicate whether this non-comparability among US GAAP reporting entities is acceptable.

***Issue 3: Modifications Reducing the Scope of a Lease Contract***

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

We believe some additional clarifications are warranted to ensure clear and consistent application of the proposal.

- Paragraph BC28 is clear that the Board intends to require an assessment of whether the remaining lease components are *economically* affected by the lease component termination(s). We recommend adding the word ‘economically’ before ‘affect’ at the end of the lead-in to paragraph 842-10-25-8B and in the first sentence of paragraph 842-10-25-8C.
- Paragraph BC28 also communicates the Board’s intent that the economic effects evaluation should consider constructive (including allocated) changes to the lease term and/or the lease payments. The Board should include this important guidance about how the Board intends for the economic effect of a termination on a remaining lease component to be determined in the Codification. We suggest wording that the Board could include in the Codification (following paragraph 842-10-25-8B):

842-10-25-8# When evaluating the criteria in paragraph 842-10-25-8B, the entity shall consider both contractual and constructive changes to the economics of the remaining lease component(s). For example:

- a. The termination of one or more lease components of the contract and/or the requirement to pay a substantive termination penalty may change the entity’s assessment about whether the lessee is reasonably certain to extend (or not terminate) one or more of the remaining lease components.
- b. The requirement to pay a significant termination penalty or a change in the consideration for one or more nonlease components of the contract stemming from the modification to terminate one or more lease components may change the total payments for the remaining lease component(s) because an entity that elected to separate nonlease components from associated lease

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components must allocate that change in consideration on the same basis as the original consideration in the contract was allocated.

- Clarify whether it is the Board's intent that one or more, but not all, of the remaining lease components could be economically unaffected and therefore follow the requirements in paragraph 842-10-25-8C even if other remaining components *are* economically affected. If so, we suggest including in the final ASU language similar to that in paragraph 842-10-15-42C. The language in paragraph 842-10-25-8C is not sufficiently clear in this respect.
- Paragraph 842-10-25-13 depends on determining whether a full or partial termination relates to a single lease component or, instead, relates to terminating one or more, but not all, of the separate lease components of a contract. Paragraph BC29 provides application guidance for making that determination that we believe should be included in the Codification. The following reflects possible text and placement to do so.

842-10-25-13A A lessee may have previously accounted for multiple separate lease components as a single lease component because the outcome would be the same as accounting for them separately. That notwithstanding, the lessee should account for a terminated lease component (e.g. a single truck or floor of a building) as a separate lease component if it would have qualified as a separate lease component (see paragraphs 842-10-15-28 and 15-29) at lease commencement (or the last date at which such an assessment would have been required).

- Paragraph BC26 is clearer than the proposed amendments in paragraph 842-10-25-8B(c). We recommend adding the word 'entire' before 'lease term' in the first line of the proposed paragraph.
- Proposed paragraph 842-10-25-8B(b)(1) should refer to paragraph 842-10-55-23 explicitly. Without that reference, we do not believe that most readers will understand the example provided. We recommend adding the underlined text '*...may change in accordance with paragraph 842-10-55-23 because a termination penalty...*'

#### *Other drafting comment*

We suggest edits to correct an error in paragraph 842-10-25-8B(b)(2). An entity assesses whether the lessee is reasonably certain *not* to exercise a termination option.

2. An entity's assessment of whether the lessee is reasonably certain to exercise a renewal ~~or termination~~ option or a purchase option, or not to exercise a termination option, in the contract for the remaining lease component(s).

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

We believe this question is best addressed by financial statement users. However, we believe the financial reporting that would result from the proposed amendments would provide relevant, decision-useful information. Specifically, the unchanged accounting for the remaining lease components in those situations in which the economic effects test is passed would, *by virtue of passing that test*, continue to reasonably reflect the economics thereof. Similarly, if the economic effects test is *not* passed, revising the accounting for the remaining lease components is appropriate to reflect the changed economics.

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The accounting under Topic 842 for a lease after undertaking modification accounting should reflect its current economics. Therefore, it would not appear that the proposal should provide either *improved* or *worsened* decision-useful information when the economic effects test is passed. We believe an exception to that outcome may arise, and the proposal may provide more useful information, when the result of applying modification accounting would be changed lease classification resulting solely from the passage of time or a change in the fair value of the underlying asset since the previous classification assessment (see our response to Question 12).

**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?**

As discussed by our firm's representative at the September 18 roundtable, we believe there are conceptually supportable changes to the modification accounting model in Topic 842 that can be made, including some of the changes highlighted at the roundtable and in the staff agenda paper for the topic. In addition to those items, the Board could explore the feasibility and benefits of reassessing lease classification, when required to do so, based on what the classification would have been at lease commencement if the terms and conditions of the modified lease were always in place. This would replace the existing requirement to reassess lease classification for the modified lease as if it were a new lease commencing on the reassessment date (i.e. the effective date of the modification). This change might prevent the undesirable outcome in which the classification of a lease changes multiple times (e.g. between finance and operating) that was described by some roundtable participants. This change might also prevent the outcome we describe in our response to Question 11 in which lease classification changes solely from the passage of time or a change in the fair value of the underlying asset. Lastly, the change might prevent entities from having to obtain certain pieces of new information, such as updated underlying asset fair values.

However, before changes to the modification accounting model are made, we believe that the Board should carefully consider the effects of those changes on all of the following (not necessarily exhaustive):

- The lessor accounting modification model is generally converged with the contract modification model in Topic 606. The Board's decision to enact this convergence was carefully deliberated during the development of Topic 842 and consistent with significant stakeholder feedback received. We continue to believe, and have seen this borne out in practice since the adoption of Topic 842, that this is conceptually and operationally valuable to lessors. For potential future departures between the two that the Board considers, we encourage the Board to consider its previous statements in paragraphs BC169 and BC179 of ASU 2016-02.
- The modification accounting model is converged with the reassessment accounting model that applies for similar lease changes (e.g. lease term changes from modifications and reassessments are accounted for in the same way). Creating this convergence was one of the Board's final decisions before issuing ASU 2016-02 and was the result of significant feedback from a variety of stakeholders during that timeframe recommending this action for logical, operational and anti-structuring reasons. Multiple roundtable participants expressed continued support for this convergence.
- The modification and lessee reassessment accounting models – in particular when and what to reassess and remeasure – are converged between Topic 842 and IFRS 16. Because a principal basis for the Issue 2 proposal herein is to permit dual reporters even greater GAAP/IFRS convergence; we

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encourage the Board to give appropriate consideration to modification (and reassessment) accounting changes that might institute a *new* measurement difference in place of the one that would be removed by the Issue 2 proposal.

We believe a careful cost-benefit analysis, including consideration of unintended consequences, should be undertaken with respect to each of these points before enacting changes that affect one or more of them. Our comment is not intended to prejudge the outcome, but rather to encourage that consideration to be as deliberate as the consideration given to those Board decisions initially.

In addition, we believe the Board should ensure, without sacrificing the strong conceptual basis for certain potential changes, that new requirements – e.g. ‘screens’ or ‘step zero’ type tests – to arrive at changed accounting (e.g. different result or simplified remeasurement) do not give rise to complexity or new required efforts greater than the benefits of the changes themselves. We note in this regard that it is likely such screens or tests (e.g. in making judgments about whether a modification is ‘minor’) could not be performed by existing lease accounting systems.

When considering all of the above, we believe the solution may involve more targeted scoping of a proposal to entities or classes of transactions for which the benefits are greater than for others, rather than abandoning a test or screen on which the conceptual basis for a potential change relies, abandoning a change altogether or enacting a change as another option in the guidance. For example, it may be that a particular modification accounting change would provide significant operational relief for one class of lessor (or for lessors as a whole), but limited relief for another (or for lessees). Therefore, the costs of having to undertake the test or screen would exceed the intended benefits of the relief for the latter class of lessor (or lessees), but not for the former. Similarly, the cost of modification accounting divergence from IFRS 16 is likely greater for lessees and operating lessors than for sales-type/direct financing lessors because there is already divergence in the modification accounting models of Topic 842 and IFRS 16 for those leases.

### *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?**

In general, we believe this is reasonable and appropriate for several reasons. However, we encourage the Board to consider any practical impediments affected financial statement preparers might raise.

- The Issue 1 proposal should simplify the accounting for the entities and transactions affected. We have not identified reasons that the lessors whom we believe are principally affected by this proposal would need significant time to adopt it.
- The Issue 2 proposal is optional and the ability to perform the accounting required by the proposal should already exist in leasing systems and processes since lessees currently have to be able to remeasure their lease payments and liabilities for changed reference indices and rates, albeit generally less frequently (i.e. only when the lease payments are remeasured for another reason, such as a change in lease term or in an amount probable of being owed under a residual value guarantee).

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- The Issue 3 proposal is intended to simplify the accounting for the affected class of modification, i.e. permitting simplified accounting for the remaining lease components when the economic effects test is passed. The economic effects test is not a provision that will require a lease system change because the test is not one that we believe can be performed by a system; it will by its nature need to be assessed for each modification to which the proposal applies outside of a leasing system.

For entities that have already adopted Topic 842, despite the absence of specified years in the proposed transition guidance, it appears that the Board may intend to follow the convention of granting non-public entities an additional year or two after their public business entity counterparts. If so, we believe this may be an instance, for all the reasons outlined in the preceding paragraph, where additional time is not warranted. We also would find it counter-intuitive to give non-public business entities that have already completed their adoption of Topic 842 an extended time period to implement these proposed amendments that is longer than that given to those non-public business entities that have not yet adopted Topic 842, and likely still have significant implementation efforts to undertake. We think all non-public business entities could adopt these amendments by the mandatory adoption date of 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?**

We support the proposed transition option for Issues 1 and 3. However, for Issue 2, we believe entities should apply the option either retrospectively or on a cumulative effect basis to the date of adoption of a final ASU.

In applying a cumulative effect approach, we believe entities should remeasure all of their leases to which the option applies based on what the measurement of their lease liabilities and ROU assets would have been had the Issue 2 proposal option always existed. Otherwise, in the absence of a fully retrospective approach, which may be onerous operationally, lessees may be required to continue to measure a lease differently between GAAP and IFRS for an extended period until the next change in the lease payments from a reference index/rate change takes effect.

We suggest that the cumulative effect option be provided in lieu of a prospective option, rather than in addition to it, as we believe three transition options would be excessive and, for the reasons outlined in the preceding paragraph, do not believe it would be elected by many companies if they are also given a cumulative effect option.

*Other transition-related comment*

It is unclear to us whether the reference to ‘the period of adoption of Topic 842’ or ‘the date in which...was adoption’ in proposed paragraphs 842-10-65-5(d)(1) and 65-5(e), 842-10-65-6(d)(1) and 65-6(e), and 842-10-65-7(d)(1) and 65-7(e) countenance entities that adopted Topic 842 using the comparative transition method in paragraph 842-10-65-1(c)(1). We acknowledge that is a small minority population, but would read that paragraph as referring to the entity’s adoption date, rather than its date of initial application (which differs from the entity’s adoption date if the comparative transition method was used).