November 23, 2020

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

By e-mail: director@fasb.org

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

(File Reference No. 2020-700)

Dear Ms. Salo:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Jeffrey A. Keene, Chair of the Financial Accounting Standards Committee, at (732) 750-0900, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Edward L. Arcara
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE—*LEASES (TOPIC 842): TARGETED IMPROVEMENTS*

(File Reference No. 2020-700)

November 23, 2020

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Sean C. Prince

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Comments on

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

(File Reference No. 2020-700)

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on Proposed Accounting Standards Update—*Leases (Topic 842): Targeted Improvements* (proposed Update).

General Comment

We appreciate that the Board continues to evaluate the impact of significant new standards and is willing, when appropriate, to consider adjustments that respond to concerns raised by stakeholders in implementing and applying new standards such as this one.

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?

Response: We believe the amendments in this proposed Update are operable. The identification of variable lease payments is straight-forward and the determination of whether that variability is dependent on a referenced index or a rate is not complex. See also our response to Question 3.

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?

Response: We first considered if any change was necessary. We find the guidance under Topic 842 to be easy to understand and apply. However, we agree that recognizing a day one loss on such leases is generally inconsistent with the overall economics of the transaction.

We next considered the possibility of the lessor including an estimate of the variable lease payments in accounting for the sales-type leases, similar to how estimates of variable consideration are made under Topic 606. We determined that while such an approach might better capture the economics of the transaction, it would involve subjective and potentially difficult to make estimates, thereby increasing the complexity of applying the standard and the possibility of adjustments in subsequent periods caused by differences between initial estimates and actual results. These adjustments could be significant and could result in reversal of revenue.

Ultimately, we believe that the most practical and efficient way to address the impact of a sales-type lease with variable lease payments that are not dependent on a reference index or a rate is to classify such leases as operating leases. This approach will remove the potential for a loss upon execution of the sales-type lease and would be simpler than requiring lessors to make estimates of the variability.

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.

Response: We believe "predominant" is the appropriate threshold. We would expect this threshold to capture the leases where the inclusion of variable lease payments was key to the overall economic characteristics of the transaction. We believe a threshold of "substantially all" would be too restrictive and not responsive to the intention of this amendment. However, if the Board intends for "predominant" to be interpreted as a "majority" as stated in the basis for conclusions (see paragraph BC12), we encourage the Board to provide that interpretation in the Codification, and not merely in the basis for conclusions.

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

Response: We believe this proposed amendment would provide improved decision-useful information. We believe that this proposed amendment will better capture and report the economics of these sales-type leases.

Issue 2: Option to Remeasure Lease Liability—Lessee Only

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

Response: We believe the proposed amendments are operable. As noted in the proposed amendments and basis for conclusion, IFRS 16 requires the described remeasurement. Therefore, providing a reporting entity the opportunity to make an election to remeasure leases is prudent and simplifies the accounting for entities that dual report under US GAAP and IFRS. For entities that do not dual report, this amendment would have little effect and therefore they would not need to elect its application.

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?

Response: We believe a lessee should be provided with such an option which will allow entities that report under both IFRS and US GAAP to maintain a single set of lease records for financial reporting. Without such option, a change in the reference index or rate on which payments are based would result in the requirement to maintain separate records to comply with IFRS and US GAAP, resulting in an increase in compliance costs.

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?

Response: We believe the basis of providing this option is to ease the reporting burden on entities that dual report under IFRS and US GAAP. Therefore, making an election at any level other than an entity wide basis would seem to be inconsistent with that purpose.

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

Response: We believe the proposed amendments would provide improved decision-useful information. As noted in the basis for conclusions, the Board considered requiring this remeasurement when deliberating Topic 842, noting it provided the most updated information about the lessee's future cash requirements. Based on feedback that the costs did not meet the benefit, the Board prohibited the remeasurement.

We encourage the Board to solicit feedback from financial statement users as they will be best positioned to answer 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?

Response: We do not believe the comparability of information will be significantly affected. Entities are required to disclose the nature and extent of significant variable lease payments, which provides users with information to reconcile differences between entities that elect the proposed option and those that do not.

Issue 3: Modifications Reducing the Scope of a Lease Contract

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

Response: We believe the proposed amendments are operable. We believe that parties to these leases have an appropriate understanding of the transaction and therefore can appropriately identify when to apply modification accounting for the assets retained.

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

Response: We believe the proposed amendment will improve the decision-useful information of the financial statements, as it will more accurately portray the economics of the related transaction.

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?

Response: We did not identify any such matters.

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?

Response: This amendment is intended to improve Topic 842. Therefore, we believe that reporting entities that have not applied Topic 842 at the date that this amendment is effective should adopt the amendment when first applying Topic 842 and use the same transition methodology.

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?

Response: We believe for entities that have adopted Topic 842 by the effective date of a final Update of these proposed amendments, that such amendments should be applied as described in this proposed Update. We note that it has only been a short period of time since early adoption of Topic 842 was permitted, therefore the burden on reporting entities that choose retrospective application should be limited.