



January 31, 2018

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

RE: File Reference No. 2018-200

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Targeted Improvements, Leases (Topic 842)* ("the Proposed ASU").

We agree with the proposed amendments to Topic 842 but have two recommendations to provide additional clarity.

- We believe the FASB should specify the disclosure required when an entity elects not to adjust comparative periods for the adoption of Topic 842.
- We believe that providing an implementation example for a lessor that elects to combine a lease component with the associated nonlease components would be helpful.

Appendix A contains our detailed responses to the Questions for Respondents for the Proposed ASU, which expands on the above comments. Appendix B includes suggestions to clarify certain language in the Proposed ASU.

If you have any questions regarding our comments, please contact David Schmid at (973) 236-7247 or John Bishop at (973) 236-4420.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



Responses to Questions for Respondents

Transition-Comparative Reporting at Adoption

Question 1: Would the proposed optional transition method to apply the new lease requirements through a cumulative-effect adjustment in the period of adoption reduce the costs and complexity associated with implementing Topic 842? If not, please explain why.

Yes, we agree that the proposed optional transition method would reduce the cost and complexity of implementing Topic 842 for preparers, given that comparative periods would not be required to be adjusted.

Question 2: Is the proposed transition method, as written in this proposed Update, operable? If not, please explain why.

Yes, we believe the proposed transition method is operable. However, we believe that the related disclosure requirements should be clarified.

We note that paragraph 842-10-65-1(i) requires an entity to provide the transition disclosures required by Topic 250, except for the requirements of paragraph 250-10-50-1(b)(2). It is not clear how a company that elects the proposed transition method should apply these disclosure requirements of Topic. For example, paragraph 250-10-50-1(b)(1) refers to the disclosure of retrospective adjustments of prior-period information. As under the proposed transition method, the prior periods are not being adjusted, this could be interpreted as not being applicable, in which case the entity would not be required to describe the equity adjustment. Paragraph 250-10-50-1(b)(3) refers to disclosure of the cumulative effect as of the beginning of the earliest period presented, which could also be considered not applicable as under the proposed transition, the cumulative effect is recorded in the year of adoption. Alternatively, it could be read as requiring disclosure as of the earliest period presented, which would contradict the accounting in the proposed transition method.

Consequently, we believe it would be helpful to specify what disclosures are required for entities that elect the new transition method in lieu of referring to Topic 250.

Separating Components of a Contract

Question 3: Would the practical expedient in this proposed Update for lessors to not separate nonlease components from the related lease components and, instead, to account for those components as a single lease component reduce the costs and complexity associated with applying Topic 842 by lessors? If not, please explain why.

Yes, we believe the proposed practical expedient would reduce the cost and complexity of implementing Topic 842 for lessors.



Appendix A

Question 4: Is the proposed practical expedient, as written in this proposed Update, operable? If not, please explain why.

Yes, we believe the proposed practical expedient is operable. However, we believe including an example in the implementation guidance for Topic 842 would lead to greater consistency in how a lessor would apply the new practical expedient.

We note that paragraphs 842-10-55-132 through 55-137 contain an example (Case A) of the allocation of consideration to the lease and nonlease components of a contract by a lessee and lessor. Paragraphs 842-10-55-138 through 55-140 provide an example (Case B) in which a lessee elects the practical expedient to not separate the nonlease components from the associated lease component. Similarly, we believe it would be helpful to provide an example for a lessor that elects to apply the proposed practical expedient. Such an example should also include consideration of the criteria in paragraph 842-10-15-42A (i.e., that the components have the same timing and pattern of revenue recognition and that the lease classification would not be impacted).

At a minimum, if a numerical example is not provided, the Board should acknowledge the assumptions used in the approach and calculations in the existing example and state the steps that a lessor would need to apply to allocate consideration for purposes of performing the lease classification test. If a lessor has a contract with multiple lease components and maintenance (a nonlease component) for each lease component and wants to elect the proposed practical expedient, we believe a lessor should allocate consideration based on the relative standalone selling price for each lease component (including the value of the maintenance) as required by Topic 606, similar to how paragraph 842-10-55-140 is applied for a lessee. However, when a lessor is performing the lease classification tests to determine whether the lease remains an operating lease, we believe it would be helpful to clarify that the fair value of each lease component should not include the fair value of the nonlease component. In other words, the fair value to be used as the denominator in the calculations should be the same regardless of whether or not a lessor elects to separate nonlease components from the associated lease component. We believe an example or additional guidance would be helpful.

Question 5: Would the information in the financial statements, including disclosures, provided by lessors electing the practical expedient in this proposed Update be decision useful? If not, please explain why.

Yes, we believe the information in the financial statements provided by lessors electing the practical expedient in the Proposed ASU would be decision useful. This is because the proposed practical expedient is limited to cases when the lease remains classified as an operating lease and the timing and pattern of revenue recognition is unchanged.



Other suggested edits

1. In paragraph 842-10-65-1(s)(2), we suggest including the words “at the application date as determined in (c)” as underlined in the text below:

“If an entity elects the transition method in (c)(1) and the lease commenced before the beginning of the earliest period presented in the financial statements or if the entity elects the transition method in (c)(2), recognize a right-of-use asset and a lease liability in accordance with paragraph 842-20-35-3 at the application date as determined in (c).”

2. In paragraph BC19, we suggest clarifying the language as suggested below to avoid misunderstanding regarding the ability of an entity to combine multiple lease components (see paragraphs 842-10-15-28 and 15-29):

“BC19. The Board discussed that under the new revenue guidance, an entity is not precluded from accounting for distinct goods or services as if they were a single performance obligation if the accounting outcome is the same as accounting for the goods and services as individual performance obligations. Similarly, under the new lease standard, an entity is ~~not precluded from permitted to accounting for the right to use land and the right to use other assets (such as a building) multiple lease components~~ as a single lease component if the outcome from doing so would be the same as accounting for the lease components separately. Therefore, the Board questioned why a lessor would be precluded from combining a lease component and a nonlease component solely because one component is within the scope of the new lease guidance and the other component is within the scope of the new revenue guidance. The discussion highlighted that leasing is a revenue-generating activity and, therefore, lessors should not be precluded from combining lease and nonlease components when the timing and pattern of revenue recognition are the same. If the only difference between accounting for a lease and the associated nonlease component separately is presentation and disclosure, then the timing and pattern of revenue recognition are considered the same.”