

February 5, 2018

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2018-200

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to the Proposed Accounting Standards Update *Leases (Topic 842): Targeted Improvements*. The views expressed herein are written on behalf of the TIG of the MOCPA. The TIG has been authorized by MOCPA's Board of Directors to submit comments on matters of interest to the society's membership.

We generally agree with the Board's proposals to: 1) allow for a transition method to apply the new leasing standard through a cumulative-effect adjustment in the period of adoption; and 2) allow lessors a practical expedient to not separate lease from nonlease components when certain criteria are met. However, we discuss proposed changes for the Board's consideration related to the lessor's proposed practical expedient.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about the following comments. Please direct questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,



Mark Winiarski, CPA
TIG Chairman



Bob Singer, CPA
TIG Member



Heather Winiarski, CPA
TIG Member



Mark Davidson, CMA
TIG Member



Leigh Salzsieder, CPA
TIG Member

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.

Response: We concur with the Board's decision to provide an optional transition method to apply the new lease requirements through a cumulative-effect adjustment in the period of adoption. This practical expedient will significantly reduce the time and cost of having to apply the standard to comparative periods. We feel that this proposed option is consistent with SFAC No 8, which provides that the benefits of a proposed standard be weighed against the costs of implementation (i.e., the pervasive constraint). The current standard that would require a calendar year public entity to apply the new requirements to all leasing arrangements in existence at the time of adoption and require the entity to recognize assets and liabilities including the accompanying disclosures for each period in the report (e.g., 2017, 2018, 2019) would impose a cost burden for many entities that exceeds the benefits in terms of improved transparency and comparability provided users. We also believe that informational content provided by restating the comparative data as required under the modified retrospection is mitigated to some extent by footnote disclosures provided under current guidance. To be sure, providing an additional transition option will, to some extent, impair the ability of users to compare companies involved in similar leasing activity, some of whom may choose the original modified retrospective transition method while others might select the option in this update. However, beyond the transition period, companies would apply the same guidance.

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

Response: We see no reason why the proposed transition method would not be operable. If anything, this proposed option will significantly reduce the burden for many entities heavily involved in leasing activities.

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.

Response: There is no question that allowing the lessor the practical expedient of combining lease and nonlease components will greatly reduce the burden for many lessors. The cost to a lessor with many leasing arrangements of having to separate lease from nonlease components within a contract in order to apply the new lease guidance to the lease component and other GAAP to the nonlease components can prove difficult and quite costly to implement. The justification for allowing the lessee a practical expedient but not allowing the lessor a similar one is out of a concern that

lessors would be exempted from the revenue recognition rules that require such separation when services and goods are provided by a seller for one price.

Under Topic 606, the revenue recognition rules require that the seller determine the standalone value of each product and service and then allocate the total consideration received on the basis of the proportion of their standalone values to the total of the two. However, in practice, many nonlessor entities that have multiple performance obligations recognized over-time in the same manner will be able to avoid the separation exercise if they do not have a need to disclose the revenues allocated between the two different performance obligations. Thus, for a lessor in a similar situation (lease and nonlease revenue recognized over-time in the same manner), the existing guidance to separate Topic 842 and Topic 606 is an additional burden compared to similarly situated entities that do not lease assets. The proposed practical expedient would allow a lessor to avoid this additional burden based on its own analysis of the meaningfulness of the separate presentation of the lease and nonlease revenue in the financial statements in the same way that a nonlessor entity might conclude that in practice separating two performance obligations recognized in the same manner over-time for bookkeeping purposes is not meaningful.

We concur with the Board that concern over allowing the lessor to combine the components and apply the new lease standard to the total would result in an inconsistent application of Topic 606 is mitigated by the realization that the lease and provision of nonlease services (e.g., maintenance) are dependent upon the ongoing underlying lease and revenue for either would be recognized on the same basis (e.g., over the term of the lease). Thus, we view this option as welcome relief and would not lead to any inconsistency or conflict in the application of the guidance provided in either standard. Moreover, the criterion that the combined component be classified as an operating lease would avoid any complexity associated with having to classify the combined component as either a sales-type or direct financing lease.

If the value of the nonlease component is a significant part of the total consideration, which is common with full service (maintenance provided) equipment leases, then for the first criteria that must be met in order for a lessor to avail itself of this practical expedient, we respectfully request that the wording be changed from “same” to “would not be materially different”: the timing and patter of revenue recognition for the lease component and nonlease components associated with the lease component would not be materially different. We believe this approach, which is consistent with the wording for the portfolio practical expedient in Topic 606, eliminates a potentially impossible hurdle of having an identical timing and patter of revenue recognition. For example, many full-service equipment leases have a fixed monthly rate (that escalates annually with a CPI index) that includes lease and nonlease components. There is also a mileage (or hourly) rate (that doesn’t escalate) multiplied by the number of miles (or hours), which vary month-to-month and year-to year. These variances are relatively minor and most likely the overall timing/pattern differences aren’t significant between the lease and nonlease components (which are included in both monthly and mileage/hourly charges).

We concur with the second criteria that the combined lease component be classified as an operating lease.

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

Response: Yes, we believe that the proposed practical expedient as written is operable and would be welcomed by many lessor entities. However, we request that the Board consider one change that would additionally reduce the cost of adopting the standard. A lease contract may contain several nonlease components. Some of those nonlease components may follow the timing and pattern of revenue recognition of the lease component while others may not. As it is currently written, if any one of the nonlease components does not follow the same revenue recognition pattern, then the lessor would not be able to apply the practical expedient to the lease. We propose allowing the lessor the option of combining the nonlease components that do follow the same revenue recognition pattern and separating those nonlease components that have a significantly different timing/pattern. Lessees would not need a similar clarification in their practical expedient because lessees are not subject to the two constraints that lessors are required to meet. This change would allow lessors with multiple nonlease components to separately account for just those revenue streams that do not follow the lease recognition pattern, which would reduce the cost of applying the standard by having fewer revenue streams to account for separately. In addition, we believe most lessors will adopt the practical consideration proposed by the Board. By adding this additional change, we believe lessors will have more comparable financial statements as the same set of nonlease components (e.g., maintenance fees) would be combined with the lease component. Without the additional change, some lessors would show those nonlease components together with the lease component while other lessors would have to show them separately because a different nonlease component did not meet the first constraint.

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.

Response: We believe that the information in the financial statements including accompanying disclosures by the lessor provide relevant information regarding the nature of the leasing arrangement and the nature and extent of the additional services provided by the lessor. If the change in Question 4 is adopted, we believe paragraph 842-30-50-3A should be changed to state that the lessor should disclose the nature of the nonlease components included within the single lease component and those nonlease components that were accounted for separately because they did not meet the first constraint.