



February 9, 2018

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

Re: **File Reference No. 2018-200**, Proposed Accounting Standards Update, *Leases (Topic 842) – Targeted Improvements*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (Board) Exposure Draft of the Proposed Accounting Standards Update (ASU), *Leases (Topic 842) – Targeted Improvements*.

The IMA is a global association representing over 100,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

We agree with the Board's decision to provide an alternative transition approach to adopting Accounting Standards Codification (ASC) Topic 842 *Leases*. We also agree with the Board's decision to permit lessors to elect not to allocate consideration in leases between the lease and non-lease components when certain criteria are met. However, we have the following suggestions for improving the final ASU.

We believe the Board should modify the first criterion in proposed paragraph 42A of ASC 842-10-15 to focus on the pattern of transfer of the non-lease goods or services rather than the timing and pattern of revenue recognition on those goods or services. We assume the Board intended the practical expedient to be consistent with the practical expedient in Topic 606 *Revenue from Contracts with Customers*. Paragraph 15 of ASC 606-10-25 states:

A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

- a. Each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria in paragraph 606-10-25-27 to be a performance obligation satisfied over time.



- b. In accordance with paragraphs 606-10-25-31 through 25-32, the same method would be used to measure the entity's progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

While the timing and pattern of revenue recognition would generally be expected to follow the pattern of transfer of the non-lease goods or services to the lessee, that may not be the case when the consideration for the non-lease goods or services is, at least in part, variable. By focusing on the timing and pattern of revenue recognition rather than the pattern of transfer, we believe the criterion in the proposed ASU would preclude a lessor from applying the practical expedient if any of the variable consideration could not be recognized because of the constraint in paragraph 11 of ASC 606-10-32. If that were the case and the lessor subsequently qualified for recognizing any portion of the constrained revenue, recognition of that variable consideration would result in a timing and pattern of revenue recognition that would differ from the timing and pattern of revenue recognition on the lease component. Focusing on the pattern of transfer of the non-lease goods or services avoids the potential impact that the recognition of variable consideration could have on determining whether the lessor qualifies for the practical expedient. We believe our recommendation is consistent with the Board's intent as explained in the Basis for Conclusions.

We also believe the Board should revise the second criterion. We believe a lessor should be permitted to assess lease classification using either the total consideration in the contract or an estimate of the total consideration that would be allocable to the lease component. If using the total consideration results in sales-type lease classification, but using an estimate of the consideration that would be allocated to the lease component results in operating lease classification, the lessor should be allowed to apply the practical expedient since it will account for the lease as an operating lease. The fact that using the total consideration would result in sales-type lease classification is not relevant. Allowing the lessor to use the total consideration in the contract to assess lease classification is a practical expedient. If using that practical expedient results in a sales-type lease, the lessor would be required to allocate the consideration in the contract between the lease component and non-lease component. We do not see why a lessor would be required to further allocate consideration in the contract between non-lease components if the lease would be classified as an operating lease using the allocated payments, particularly if the pattern of transfer of the non-lease goods or services is the same as the pattern of transfer of the lease component. Rather, we believe the lessor should be permitted to apply the practical expedient for not separating consideration in that case.

We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "Nancy J. Schroeder".

Nancy J. Schroeder, CPA  
Chair, Financial Reporting Committee  
Institute of Management Accountants  
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