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September 11, 2018

Technical Director
File Reference No. 2018-260
Financial Accounting Standards Board ("FASB")
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
E-mail: director@fasb.org

Re: File Reference Number 2018-260

Dear Technical Director,

We appreciate the opportunity to be able to comment on the Leases ("Topic 842") exposure draft regarding narrow-scope improvements for lessors (the "2018 ED").

GreatAmerica Financial Services Corporation ("GreatAmerica") is an independent small-ticket lessor that has provided over $10.0 billion in financing to more than 358,000 individual companies. GreatAmerica specializes in financing office imaging equipment, telephone equipment, computer equipment, healthcare equipment, light construction equipment, and auto repair equipment, with an average lease transaction size of approximately $17,000.

Based on GreatAmerica's experience as a finance company in the leasing industry over the last twenty-five years, GreatAmerica feels that the current lessor treatment of the costs discussed in the 2018 ED provides a complete picture of the lessor's financial condition, and is an accurate economic representation of the underlying lease transactions. In addition, GreatAmerica is not convinced that a change is necessary, simply to have consistent treatment with Topic 606. The FASB's purpose of the "Broad Transactions" section of the Accounting Standards Codification is to include guidance on transactions that impact multiple financial statement accounts. These costs associated with leasing transactions should be specifically addressed within Topic 842 without having to jump back and forth between Topic 842 and 606. Since the current guidance for lessors meets the needs of financial statement users, a change in treatment is not necessary. More explicit guidance on the current treatment could be codified as part of Topic 842, which would continue the FASB's efforts of transparent and comparable financial statements.

Equipment lease agreements generally require the lessee to be responsible for the related costs for using the leased asset(s) over the lease term; regardless of who is paying the costs to the third party. The lessee is contractually obligated to pay for sales tax and property tax. Lessors may be collecting the taxes from the lessees and remitting to the third party as a pass through payment. The method of a lessor paying property taxes directly to the third party is to protect the lessor from a tax lien due to a lessee default.

The financial reporting of these costs should not be based upon who is making the payment to the third party. The terms of the lease contract should direct whether the costs are lessee or lessor costs. The same accounting policy election being offered in the 2018 ED for sales tax should be allowed for property tax. Additionally, it

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would be beneficial for the FASB to define "lessee costs" as costs the lessee is contractually obligated to make when obtaining the right to use and control the asset(s) over the lease term.

The FASB's main focus with issuing Accounting Standards Update 2016-02, Leases Topic 842, is to increase transparency and comparability among organizations. The 2018 ED will not increase the comparability among organizations due to the treatment of these costs being handled differently by lessors depending upon who is making the payment to the third party. Historically, financial statement users have not considered these costs a lessor revenue and expense.

GreatAmerica has prepared the following responses to the questions posed by the FASB.

Question #1: Should a lessor's accounting for sales taxes and other similar taxes collected from lessees be aligned with Topic 606? If not, please explain why.

No. In the leasing industry, these costs are contractual obligations of the lessee for using the leased asset(s) over the lease term. The treatment of these costs (e.g., sales taxes and property taxes) should be explicitly addressed within Topic 842. Since these costs are contractual obligations of the lessee, GreatAmerica does not believe that they should be accounted for as lessor costs. Additionally, these costs are not revenue generating activities that warrant a gross presentation of the amounts. The lessor is merely acting as an intermediary to collect and remit these costs to the appropriate third party.

The financial reporting of these costs should not be based upon who is making the payment to the third party. The terms of the lease contract should direct whether the costs are lessee or lessor costs. To avoid confusion and inconsistencies between companies' accounting treatment, presentation, and disclosure; the FASB should define lessor costs and lessee costs that are separate from a lease payment. The definition of "lessee costs" would be costs the lessee is contractually obligated to make when obtaining the right to use and control the asset(s) over the lease term. Topic 842 uses the concept of "control" when determining whether there is a lease. When the lessee has "control" of the leased asset(s), the lessee would be responsible for the related leased asset(s) costs. These lessee costs would be expenses to the lessee and not lease payments.

Question #2: Is the proposed accounting policy election, as written in this proposed Update, operable? If not, please explain why.

The proposed accounting policy election needs to be expanded to specifically include property tax. Additionally, when lessee costs are defined within Topic 842 (as mentioned above), it provides clear guidance on whether a payment made by the lessee is a lease payment, service payment, or payment for lessee cost.

If the proposed 2018 ED remains unchanged and is issued as an accounting standard update, it would be costly and complex to treat sales tax differently from property tax. There should be consistency in the treatment of these items. These should all be considered lessee costs since the lessee has contractually agreed to be responsible for the costs as they have the right to use the leased asset(s) over the lease term.

The disclosure of the accounting policy election in the proposed Update is operable and will continue to be operable with the expansion of the accounting policy election to include property tax.

Question #3: Would the proposed accounting policy election result in a reduction of decision-useful information to users of a lessor's financial statements? If so, please explain why.

No, current users of lessors' financial statements do not consider the taxes that are contractual obligations of the lessee to be revenue and expenses of the lessor. In addition, these items are generally immaterial to the lessors' financial statements. The gross up of these items on the income statement would not be beneficial to financial statement users and could impact certain financial ratios unnecessarily. Current users of lessors' financial statements have not requested further details of these items that warrants a change from current accounting and presentation treatment.

Question #4: Should a lessor's accounting policy election for sales taxes and other similar taxes collected from lessees be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.

As already indicated, the proposed accounting policy election for lessors should be expanded to include property tax as well as be applied to existing and new contracts. With an expansion of the accounting policy election to property tax, this would continue current accounting and presentation treatment except for the disclosure regarding the accounting policy election. Additionally, this will continue comparability amongst companies' financial statements.

Question #5: Should a lessor be required to exclude certain lessor costs paid directly by lessees to third parties on behalf of a lessor as variable payments when the uncertainty in the amount is not expected to ultimately be resolved? If not, please explain why.

Regardless of whether the lessor or lessee makes the payment to the third party, the costs should be determined based on the underlying contractual agreement. The financial reporting of these costs should not be based upon who is making the payment to the third party. The terms of the lease contract should direct whether the costs are lessee or lessor costs. Specifically including property tax in the guidance as well as defining a lessee cost versus a lessor cost will resolve the uncertainty and confusion on handling these costs, which will keep financial statements between companies comparable.

Question #6: Are the proposed amendments for the accounting for certain lessor costs operable? If not, please explain why.

While this question is with regards to issue 2 when the lessee makes payments directly to a third party, GreatAmerica's perspective is there should not be a financial reporting distinction based upon who is making the payment. The terms of the lease contract should direct whether the costs are lessee or lessor costs. The guidance would explicitly define these types of costs to avoid confusion and different treatments between companies. When the lessee has contractually agreed to be obligated for these costs (sales tax and property tax), they are costs of the lessee. When a lessor pays and collects these costs, it is not a profit generating activity.

Question #7: Would the proposed requirement for a lessor to not report certain lessor costs paid directly by a lessee to a third party on behalf of the lessor result in a reduction of decision-useful information to users of a lessor's financial statements? If so, please explain why.

No, current users of lessors' financial statements do not consider the sales and property that are contractual obligations of the lessee to be revenue and expenses of the lessor. In addition, these items are generally immaterial to the lessors' financial statements. The gross up of these items on the income statement would not be beneficial to financial statement users and could impact certain financial ratios unnecessarily. Current users of lessors' financial statements have not requested further details of these items that warrants a change from current accounting and presentation treatment.

Question #8: Should the proposed amendment in paragraph 842-10-15-40A to exclude certain lessor costs paid directly by lessees on behalf of a lessor as variable payments be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.

The proposed accounting policy election for lessors should be expanded to include property as well as be applied to existing and new contracts. In addition, the accounting policy election should not be distinguished by who is paying the third party. The financial reporting of these costs should not be based upon who is making the payment to the third party. The terms of the lease contract should direct whether the costs are lessee or lessor costs.

With an expansion of the accounting policy election to property tax, this would continue current accounting and presentation treatment except for the disclosure regarding the accounting policy election. Additionally, this will continue comparability amongst companies' financial statements.

Question #9: Would the proposed amendments clarify the application of paragraph 842-10-15-40? If not, please explain why.

While the proposed amendment with use of "allocate" over "recognize" clears up confusion and allows for appropriate timing of recognition, the main concern is whether the variable payments are lease payments or other payments associated with the lease contract. GreatAmerica's perspective is the guidance should adequately distinguish between lease payments, service payments, lessor costs, and lessee costs as well as providing the appropriate recognition guidance. To the best extent possible, matters associated with a lease contract should be addressed within Topic 842.

Question #10: Are the proposed amendments for the accounting for certain variable payments for contracts with lease and nonlease components operable? If not, please explain why.

GreatAmerica's perspective is the guidance should adequately distinguish between lease payments, service payments, lessor costs, and lessee costs as well as providing the appropriate recognition guidance. To the best extent possible, matters associated with a lease contract should be addressed within Topic 842.

Question #11: How much time would be needed to implement the amendments in this proposed Update for an entity that early adopts Update 2016-02 before these proposed amendments are finalized? What transition method and transition disclosures should those entities be required to apply (provide)? Please explain your reasoning.

GreatAmerica does not have a comment to provide for this question.

Question #12: Should the effective date for the amendments in this proposed Update be aligned with that of Update 2016-02? If not, please explain why.

Yes.

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Conclusion

The proposed accounting policy election should be specifically expanded to include property tax. This would continue current accounting and financial reporting treatment that does not need changed. We do believe that the current accounting and presentation of these costs provides adequate information to financial statement users, and that the costs of conversion and compliance would exceed the limited, if any, benefits of the gross presentation. More explicit guidance on the current treatment could be codified as part of Topic 842, which would continue the FASB's efforts of transparent and comparable financial statements.

If you have any questions regarding GreatAmerica's comments, or would like to discuss our responses further, please contact me via e-mail at rkinney@greatamerica.com, or via phone at 319-734-4675.

Sincerely,

Renae Kinney

Renae Kinney, Controller