



arrangement would be simpler than requiring the lessor to incur the cost necessary to support that the amounts paid by the lessee to the insurer are not “readily determinable” and would be more consistent with the discussion in the Basis for Conclusions to ASU 2016-02.

Transition for Lessor Costs Paid Directly by Lessees

The proposed ASU asks whether the guidance in proposed paragraph 40A of ASC 842-10-15 should be applied to new lease contracts only or to existing and new lease contracts. While the Board did not address how a lessor should determine lease income on existing leases subsequent to the effective date of Topic 842, it did provide guidance on how a lessee should measure the right of use asset and lease liability for existing leases, directing lessees to use minimum rental payments, which under Topic 840 exclude executory costs (meaning taxes and insurance). Because a lessee is able to use payments that exclude taxes and insurance in determining the amount of the right of use asset and lease liability for existing leases, we believe the same treatment should apply to a lessor’s determination of the amount of the payment to include as lease income. It would be helpful if the Board made that clear in the transition guidance.

Implementation Guidance and Illustrations

If the Board does not agree with our proposed recommendations for property taxes and insurance, we recommend including additional examples illustrating the following.

- Lessee obligated to insure leased equipment, with the lessor named as the loss payee.
- Lessee obligated to pay property taxes on an asset it sold to, and leased back from, the lessor and the lease is classified as an operating lease by the lessee but a direct financing lease by the lessor and therefore is not treated as a loan and a borrowing.

We believe those examples should illustrate the subsequent accounting by the lessor in each situation.

Other Matters

In ASU 2016-12, the Board modified paragraph 7 of ASC 606-10-25 to add another condition that would allow a seller to recognize revenue for amounts collected on an arrangement where the seller was unable to conclude that collectibility of the entire arrangement consideration was probable. That paragraph, as amended, states, in part:

When a contract with a customer does not meet the criteria in paragraph 606-10-25-1 and an entity receives consideration from the customer, the entity shall recognize the consideration received as revenue only when one or more of the following events have occurred: ...

- c. The entity has transferred control of the goods or services to which the consideration that has been received relates, the entity has stopped transferring goods or services to the customer (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable.

