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Ms. Susan M. Cospers
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File Reference No. 2018-260
Financial Accounting Standards Board
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Proposed Accounting Standards Update, Leases (Topic 842) – Narrow-Scope Improvements for Lessors (File Reference No. 2018-260)

Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Leases (Topic 842) – Narrow-Scope Improvements for Lessors*, issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's objective to reduce the cost and complexity for lessors of applying the guidance in Accounting Standards Codification (ASC) 842 by allowing lessors to make an accounting policy election to not evaluate whether sales taxes and similar taxes imposed by a third party on a lease revenue-producing activity are the primary obligation of the lessor as owner of the underlying leased asset. However, as noted in our response to Question 2, we believe certain aspects of the proposal should be clarified.

We also support the FASB's objective to address stakeholders' concerns about the difficulty of estimating certain costs paid directly by lessees to third parties on the lessor's behalf and concerns about the guidance on when a lessor recognizes variable payments that relate to both a lease component and non-lease component. However, as noted in our response to Question 6, we have significant concerns about the operability of the proposed amendments.

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Our responses to the questions in the proposed ASU are included in Appendix A. We have included other editorial suggestions in Appendix B.

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

Very truly yours,

Appendix A – Responses to questions in the proposed ASU

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.

We agree with the Board’s proposal to align a lessor’s accounting for sales taxes and other similar taxes collected from lessees with the guidance in ASC 606. We believe the current guidance in ASC 842 will present lessors with the same challenges the Board addressed in the revenue standard by providing the accounting policy election in ASC 606-10-32-2A. Further, we believe that aligning the guidance in ASC 842 and ASC 606 would result in better financial reporting when a contract includes both lease and non-lease components because it would align the accounting for sales (and other similar) taxes attributable to the lease and non-lease components.

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

We believe the proposed accounting policy election is generally operable. However, we observe that paragraph 842-10-15-39A refers to “value added taxes” as taxes that are both imposed on and concurrent with a specific lease revenue-producing transaction and collected by the lessor from a lessee. This guidance suggests that a lessor that does not elect the proposed accounting policy would include value added taxes in its lease payments. Based on conversation with our global counterparts, it is our understanding that nonrefundable value added taxes are generally not considered lease payments under IFRS 16 (i.e., they are typically not a reimbursement of lessor costs). We do not believe that the Board intended to create a difference between US GAAP and IFRS in this regard. Accordingly, we suggest that the Board remove “value added taxes” from the examples in paragraph 15-39A.

We also observe that paragraph 842-10-15-39A states that “taxes assessed on a lessor’s total gross receipts or on the lessor as owner of the underlying asset” are excluded from the scope of the proposed policy election. However, it is unclear to us what is meant by “taxes assessed on a lessor’s total gross receipts.” We suggest the Board clarify its intent.

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.

We do not believe the proposed policy election would result in a reduction of decision-useful information to users of a lessor’s financial statements. However, we recommend that the Board conduct outreach with users to gain additional input.

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.

We believe the Board should permit an entity to either apply the policy election to new lease contracts or to all existing and new lease contracts. Permitting entities to apply the policy election to only new contracts would allow entities to "run out" their existing leases (unless lease classification changes), which is consistent with the Board's stated transition objective for those entities. Permitting entities to apply the policy election to all existing and new lease contracts would allow those entities to maintain consistency in the accounting for contracts subject to the policy election and in the information provided to the users of their financial statements. It also would allow those entities to maintain only one set of processes and controls related to the policy election.

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.

We agree with the objective of the Board's proposal to require lessors to exclude certain lessor costs paid directly by lessees to third parties on behalf of a lessor as variable payments when the amount of those costs is not readily determinable by the lessor. We believe doing so would reduce the cost and complexity for lessors of applying the guidance in ASC 842. However, we believe the Board should clarify the proposal to make it operable, as discussed in our response to Question 6 below.

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

We do not believe the proposed amendments are operable. We believe the Board should clarify that when a lessor evaluates whether lessor costs paid directly by a lessee to a third party are "readily determinable," the lessor should consider the cost and effort of obtaining the information necessary to determine the amount of those costs. We believe this clarification would be consistent with the Board's desire to address stakeholder concerns about the challenges lessors might face in determining lessor costs.

Consider the example of property tax information. A lessor may be able to determine property tax information for leased assets on an asset-by-asset basis (e.g., via searches on publicly available government websites). However, the information may not be readily determinable for a portfolio of leased assets without undue cost and effort. Under this approach, a lessor that leases assets in the normal course of its business in numerous jurisdictions could reasonably conclude that the property tax information for those assets is not readily determinable due to the significant level of cost and effort required to obtain the information about each asset. If the Board does not make this clarification, we anticipate there will be significant diversity in how "readily determinable" is interpreted.

Further, we recognize that paragraph BC18 states that an entity should apply reasonable judgment in determining the types of lessor costs to which the proposed amendments would apply. However, we suggest that the Board provide several examples of the types of lessor costs it intended to be in the scope of the proposed amendments.

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.

We do not believe the proposed policy election would result in a reduction of decision-useful information to users of a lessor's financial statements. However, we recommend that the Board conduct outreach with users to gain additional input.

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.

We believe the Board should permit an entity to either apply the proposed amendments to new lease contracts or to all existing and new lease contracts. Permitting entities to apply the proposed amendments to only new contracts would allow entities to "run out" their existing leases (unless lease classification changes), which is consistent with the Board's stated transition objective for those entities. Permitting entities to apply the proposed amendments to all existing and new lease contracts would allow those entities to maintain consistency in the accounting for contracts subject to the proposed amendments and in the information provided to the users of their financial statements. It also would allow those entities to maintain only one set of processes and controls related to the accounting for lessor costs paid directly by lessees.

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

We believe the proposed amendments would clarify how the Board intended the guidance in paragraph 842-10-15-40 to be applied. However, the clarification is contrary to how some entities have interpreted the guidance in paragraph 15-40 (i.e., some entities have interpreted the paragraph to require a recognition model for certain variable payments allocated to a non-lease component that is different from what is required by ASC 606). Accordingly, the proposed amendments may represent a significant change for some entities. We suggest the Board consider this fact when determining the time necessary to implement the amendments.

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.

We believe the proposed amendments for accounting for certain variable payments for contracts with lease and non-lease components are operable. However, as noted in our response to Question 9, the proposed amendments may represent a significant change for how some entities have interpreted the guidance in paragraph 842-10-15-40 during their implementation of ASC 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.

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.

We encourage the Board to conduct outreach with preparers of financial statements about the time needed to implement the amendments.

Appendix B – Editorial comments

Sales taxes and other similar taxes collected from lessees

ASC 842-10-15-39A states: “A lessor may make an accounting policy election to exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific lease revenue-producing transaction and collected by the lessor from a lessee (for example, sales, use, value added, and some excise taxes).”

It is unclear why the word “some” is only used for excise taxes and not for sales, use or value added taxes. We acknowledge this sentence is taken from the amendment in ASC 606-10-32-2A. However, we suggest revising paragraph 15-39A to say “(for example, qualifying sales, use, value added and ~~some~~ excise taxes).

Recognition of variable payments for contracts with lease and nonlease components

ASC 842-10-15-40 states: “If the terms of a variable payment amount other than those in paragraph 842-10-15-35 relate to a lease component, even partially, the lessor shall not recognize the lease and nonlease components related to those payments before the changes in facts and circumstances on which the variable payment is based occur (for example, when the **lessee’s** sales on which the amount of the variable payment depends occur). ”

We recommend revising paragraph 15-40 as follows: If the terms of a variable payment amount other than those in paragraph 842-10-15-35 relate to a lease component, even partially, the lessor shall not recognize those payments, relating to the lease and nonlease components, as income in profit or loss ~~related to those payments~~ before the changes in facts and circumstances on which the variable payment is based occur (for example, when the **lessee’s** sales on which the amount of the variable payment depends occur).