September 12, 2018

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2018-260: Leases (Topic 842): Narrow-Scope Improvements for Lessors (Proposed ASU)

Dear FASB Board Members and Staff:

The PNC Financial Services Group, Inc. ("PNC" or "we") appreciates the opportunity to comment on the Proposed ASU which has been issued by the Financial Accounting Standards Board ("the Board") to address implementation issues raised by lessor stakeholders regarding Topic 842. We applaud the Board's efforts to expeditiously address these implementation issues; however, we believe that with respect to the scope of the accounting policy election regarding the exclusion for *Sales Taxes and Other Similar Taxes Collected from Lessees*, further consideration should be given. Please refer to our responses in Questions 2 and 3 within Appendix A for further comment.

Appendix A also contains our additional detailed responses to the Questions for Respondents for this Proposed ASU.

We appreciate the opportunity to share our views with the Board. We welcome any questions or comments you may have on this letter. Please contact me (412.762.6543) with any questions about PNC's comments.

Sincerely,

Michael Yenchek

Mr. Michael Yenchek
Director of Accounting Policy
The PNC Financial Services Group, Inc.

cc: Mr. John (JJ) Matthews
Director of Finance Governance & SEC Reporting
The PNC Financial Services Group, Inc.

Appendix A

Responses to Questions for Respondents

Sales Taxes and Other Similar Taxes Collected from Lessees

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.

Yes, we believe a lessor's accounting for sales taxes and other similar taxes collected from lessees should be aligned with Topic 606, as leasing is a revenue-producing activity for lessors.

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

No, we do not believe the proposed accounting policy election, as written, is operable. While we agree with the proposal to allow lessors the election to exclude the evaluation of sales taxes and other similar taxes in the determination of whether they are costs of the lessor, we believe the scope of the election should be expanded to include taxes assessed on a lessor's total gross receipts and on the lessor as owner of the underlying asset. Operationally, it would be challenging to break out the gross receipts and property taxes collected and to account for them separately from the sales taxes collected. In addition, as the proposed election is currently written, we would be required to analyze tax laws jurisdiction-by-jurisdiction to assess the impact of the gross receipts tax, which would add complexity to the process.

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, we believe that the proposed accounting policy election permitting lessors to exclude the evaluation of sales and other similar taxes in the determination of whether they are lessor costs would not result in a reduction of decision-useful information to users of the financial statements. Further, requiring lessors to gross up their income statements for gross receipts and property taxes would also not be decision-useful information to users of financial statements. The collection of sales and other similar taxes are not revenue generating activities for lessors and thus, we believe that these items are not considered by the users of the financial statements when evaluating the performance of the lessor. Additionally, in the event that the sales and other use taxes were deemed lessor costs, revenue and expense would be grossed up, but likely in the same amount, leaving little to no impact on net income. This gross up would however, dilute a lessor's Operating Efficiency, which is a key metric in measuring the profitability of financial institutions. Finally, we believe that requiring lessors to gross up their income statement for gross receipts taxes would be operationally burdensome due to the potentially different treatment of these types of taxes, thus requiring additional analysis of tax law by jurisdiction.

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 a lessor's accounting policy election should be applied to all existing and new lease contracts, which would enable transition alignment for the adoption of ASC 842. Applying the proposed guidance to only new lease contracts would create additional operational and systematic burdens, by requiring the lessor to track new leases separately from existing leases.

Certain Lessor Costs Paid Directly by Lessees

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.

Yes, we believe that lessors should be required to exclude lessor costs paid directly by lessees to third parties as variable payments. We also believe that lessors should be required to present the lessor costs reimbursed by the lessee directly to the lessor on a net basis on the income statement. If the lessor is paying executory costs such as gross receipts taxes, property taxes and insurance, and billing the lessee for reimbursement, the lessor is acting as an agent, not a principal. Accordingly, ASC 606 requires that these executory costs be presented net on the income statement; therefore, requiring lessors to gross up the income statement for these items would not align with the principles of ASC 606.

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

Yes, we believe that the proposed amendments are operable.

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, we believe that requiring lessors to gross up the income statement for costs reimbursed by the lessee directly to the lessor would not be decision-useful information to users of financial statements. Therefore, 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 would not result in a reduction of decision-useful information to users of the financial statements. Refer to our response to Question 3 above for our rationale as to why presenting executory costs such as gross receipts taxes, property taxes and insurance gross on the income statement does not provide decision-useful information to financial statement users.

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 proposed amendments should be applied to all existing and new lease contracts, which would enable transition alignment for the adoption of ASC 842.

Recognition of Variable Payments for Contracts with Lease and Nonlease Components

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

Yes, we believe that the proposed amendments would clarify the application of paragraph 842-10-15-40.

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.

Yes, we believe the proposed amendments are operable.

Transition and Effective Date for Early Adopters

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.

N/A – We do not plan on early adopting Update 2016-02.

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.

N/A – We do not plan on early adopting Update 2016-02.