



May 13, 2019

Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Effective Date of ASU 2016-02, *Leases* (Topic 842)

Dear Mr. Kuhaneck:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC would like the Board to consider delaying the effective date of ASC Topic 842, *Leases*, for private companies.

TIC has heard concerns from private companies about the effective date of the lease standard, especially it being just one year after the effective date of ASC 606, *Revenue from Contracts with Customers*. Although the Private Company Decision-Making Framework (PCDMF) has a default of one additional year from public companies for private companies to adopt (section 4.1), it includes considerations of whether the effective date should be more than one year (section 4.4). With the significant and complex standards recently issued by the Board including leases, revenue, and CECL, TIC believes they should be given special consideration considering the effective dates are so close together and the changes are quite substantial and will require significant time to adopt.

Many private companies still need to expend significant resources to adopt the new revenue standard. For example, recent polls by the Center for Plain English Accounting (CPEA) show that over 50% of private companies do not feel they have the adequate controls in place to adequately adopt all provisions of this standard.

Some additional reasons TIC supports the idea of a delay for the lease standard for private companies include:

- It can take more than one year for private companies to learn what the implementation issues are from SEC comment letters, which is an important part of the education cycle. This is consistent with paragraph DF 12 of the PCDMF.
- TIC believes that ASC 842 will impact a majority of private company's financial statements and the extent and magnitude of the change could be significant in lease-intensive companies. This effort would involve potential changes to internal controls and systems for capturing contracts, similar to the effort required to implement ASC 606.
- TIC believes users will be impacted by these changes with additional liabilities recorded on the balance sheet; however, we do not believe an extended period of time in which private and public companies financial statements are not comparable would adversely affect users of private company financial statements. This consideration is taken from paragraph 4.4 of the PCDMF.
- TIC does not believe there is an immediate need for private companies to adopt ASC 842. Users have relied on financial statements prepared using ASC 840 for years – an additional one year delay should not adversely impact users.
- FASB continues to issue narrow scope improvements to this standard and it is difficult to keep up with what the standard currently requires. Many of these changes and narrow scope improvements come from public companies that have already gone through the process.
- Many private companies are just now starting to adopt ASC 606 due to resource limitations, their reporting process, and timing of their audits. Adding on leases creates additional cost and complexity. The effort to implement leases is expected to be significant and private companies do not have adequate resources to address ASC 606 and ASC 842 at the same time.
- The effort required to adopt ASC 842 includes identifying and accounting for all leases, but potentially modifying debt covenants as well. Many private companies will have to review loan covenant calculations to ensure the new standard does not cause technical defaults and likely will have to work with lenders and users to modify debt and other financial covenants as needed in response to the effects of the new standard.
- An additional one-year delay should result in more accurate reporting under ASC 842 for private companies.
- ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, as amended by ASU 2018-19, has separate effective dates for public business entities that are SEC filers, all other public business entities, and all other entities. These effective date provisions result in a 2-year delay between adoption for SEC filers and private companies. TIC believes similar effective date provisions for leases would be welcome by preparers and practitioners.
- Results of a survey recently done by Deloitte note that only 29.9% of private companies plan to adopt on schedule. Furthermore, most are still reporting they are unprepared

(33.2%) or just somewhat prepared (43.8%) to comply – not much of a change since the last Deloitte poll was conducted in October 2018.

- TIC has found that some of the third-party vendors that have developed solutions to assist companies in implementation of the lease standard have errors in their software and it will take some time to sort through to ensure these solutions are accurate and auditable.
- TIC is aware that public company clients are struggling with adoption, and those entities have more resources than most private companies.
- Private companies could still early adopt in cases where they are prepared and wish to adopt the standard early.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees