From: Michael C. Haas <MHaas@mahco.com>
Sent: Monday, August 26, 2019 11:57 AM
To: Director - FASB <director@fasb.org>
Subject: Exposure Draft - Effective Date: File Reference No. 2019-750

Hello
I am commenting on the recently released Proposed Accounting Standards Update issued August 15, 2019: Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Date. The file reference is 2019-750.

Specifically, I would like to comment relative to the portion of the standard that impacts Topic 842 Leases.

I support the proposed standard to extend the effective date for non-public companies (other than large public companies) for future ASUs.

In this support, I would like to emphasize one of the impetuses for needing the extension of the effective date. Specific to leases and the upcoming update of lease accounting, while there was consideration given for loan covenants, there was little consideration given for regulatory covenants. This still is of concern. There are certain industries in various states that are regulated either on a state-wide basis or on a more local basis (county or city) where the entity needs to maintain certain ratios or levels of net worth or liquidity to remain in compliance with respective statutes.

These entities could be for-profit operations or municipalities.

In previous discussions with members of FASB, the thought process was an anticipation (or expectation) that the regulatory agency would be cognizant of the changes coming under 842 and adapt the covenants to take the new accounting regimen into consideration. Unfortunately, this has not happened.

For example, in California, there are two bills in the state legislature (Assembly bills 295 and 412) addressing how the specific covenants affecting underwritten title companies and independent escrow companies, respectively, would be modified to carve out the impact of lease accounting update on the balance sheet covenants.

It seems that a possible solution could be to modify the required disclosure in GAAP footnotes to discuss more deeply the impact of leases on the entity's cash flows or liquidity or net worth or ability to continue as a going concern, etc. There could be a more comprehensive approach to the footnote other than just giving the known obligations for the upcoming five years.

In addition, the wording of the lease accounting standard allows for inconsistency among similar entities depending on the type of lease contract that exists (or does not exist in the case of certain potential related party arrangements).

I realize the purpose of this specific Update exposure draft is on effective dates, but I wanted to extend my comments to spur further thought on the lease accounting standard as it currently is written.

Thank you for your consideration and for allowing me to submit these comments.

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