NRF® NATIONAL RETAIL FEDERATION®

April 3, 2020

Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7 #2
Norwalk, CT 06851

RE: April 8 Meeting to Discuss Standard-Setting Issues During Pandemic

Dear Chairman Golden:

The National Retail Federation (NRF) appreciates the opportunity to provide input related to the FASB's plan to address standard-setting issues arising from the COVID-19 pandemic. The National Retail Federation, the world's largest retail trade association, passionately advocates for the people, brands, policies and ideas that help retail thrive. NRF empowers the industry that powers the economy. Retail is the nation's largest private-sector employer, contributing $3.9 trillion to annual GDP and supporting one in four U.S. jobs — 52 million working Americans. For over a century, NRF has been a voice for every retailer and every retail job, educating, inspiring and communicating the powerful impact retail has on local communities and global economies.

As a result of the COVID-19 pandemic, many of our members are experiencing significantly reduced consumer traffic in their retail stores or indefinite closures due to quarantine measures and other government directives. Most of our members rent the majority, if not all, of their retail stores with lease terms based on a business model that is not sustainable in the current environment. As such, they are actively seeking economic incentives in the form of temporary rent concessions from landlords.

We are very concerned that the current accounting model for such concessions could cause significant hardship on our members.

Generally, the accounting treatment for such rent concessions will depend on whether (1) the lessee was entitled to the economic relief (i.e., the contractual arrangement or jurisdictional laws provide an enforceable right) or (2) the relief was agreed to or negotiated outside of the original agreement. In determining the accounting treatment, an entity considers contractual provisions governing the occurrence of unusual non-recurring events like earthquakes, fires, and presumably COVID-19 (e.g., a force majeure clause or similar provision).

(1) If the lessee is entitled to the economic relief because of either contractual or legal rights, the relief would be treated as variable rent (i.e., negative variable rent) in the period incurred. The lessee would record variable lease payments in the income statement when the associated variability or conditionality is resolved and would not be required to reassess the arrangement or remeasure the lease on the balance sheet.

(2) Rent concessions that are agreed to or negotiated outside of the original agreement most likely represent a lease modification, in which case the lessee would be required to apply the modification framework. As a result, lease classification should be reassessed using updated inputs (e.g., incremental borrowing rate) and the lessee would recognize the economic relief through the income statement over the remaining lease term.

Under current guidelines retailers would be required to review hundreds, if not thousands, of leases to identify which scenario applies in order to determine the financial reporting. Leases that trigger modification accounting would require a significant amount of analysis and outside data. This is at a time when many retailers are operating with reduced, redeployed or remotely located staff. Depending on the complexity of the arrangement and the legal framework in the applicable jurisdiction, this may require a retailer to obtain the assistance from legal counsel or others, again at a time when these resources are fully focused on sustaining their businesses and vital future recovery actions.

Given the current environment that companies world-wide are facing, we believe their focus is best directed towards managing the business through economic upheaval. Any regulatory or standard-setting relief during this time would be of tremendous help to our members. Specifically, we ask for relief from modification accounting for all COVID-19 related concessions received from a landlord that are associated with store closures or reduced traffic. Any concessions received would be recognized as part of the monthly rent (negative variable rent).

NRF thanks the FASB for consideration of our comments and welcomes further discussion with your staff and members of NRF's Financial Executives Council in advance of your deliberations. Carleen Kohut is NRF's lead on this project; she can be reached at kohutc@nrf.com

Sincerely,

Zahilys Hernandez, CPA
Chief Financial Officer