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Technical Director  
File Reference No. 2020-700  
Financial Accounting Standard Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Sent via email to: [director@fasb.org](mailto:director@fasb.org), File Reference No. 2020-700

Dear Technical Director:

CliftonLarsonAllen LLP (CLA) appreciates the opportunity to comment on the Financial Accounting Standards Board's (the FASB's or the Board's) proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements*. We appreciate the Board's efforts to respond to stakeholder needs by addressing issues that have been identified associated with adoption of Topic 842.

We have provided our answers to the questions for respondents included in the exposure draft in the attachment. In addition to this commentary, we suggest that you revisit the following area of complexity.

Prior to the adoption of Topic 842, related parties were required to consider the economic substance of related-party arrangements. Topic 842 now requires related parties to consider the legal enforceability of related-party arrangements. It is expected that legally enforceable terms and conditions will typically be determined by the terms included in a written contract. This change in concept results in additional complexity in regard to verbal contracts and written contracts with the potential for cancelation. We ask that the Board consider reinstating the concept of economic substance for related-party leases.

We believe this is an important area of consideration. Economic substance relates to the underlying economic or commercial purpose of a business transaction versus its legal form. We believe that related-party transactions should follow substance over form. This will allow the economic substance of transactions and events, rather than just their legal form, to be recorded in the financial statements in order to present a true and fair view of the affairs of the entity. With the adoption of Topic 842, this change in practice may result in less decision-useful information for related-party transactions.

Thank you for the opportunity to provide feedback.

Sincerely,

**CliftonLarsonAllen LLP**

**Exposure Draft: Proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements (File Reference No. 2020-700)***

CliftonLarsonAllen LLP is pleased to provide the following responses to the specific questions for respondents in the proposed accounting standards update.

**Issue 1: Sales-Type Leases with Variable Lease Payments—Lessor Only**

**Question 1:** Are the amendments in this proposed Update operable? Why or why not?

Yes. We believe the proposed amendments are operable based on the availability of current and historical accounting records.

**Question 2:** Should a lessor be required to classify and account for a sales-type lease with predominantly variable lease payments that do not depend on a reference index or a rate as an operating lease? Why or why not?

Yes. We believe that lessors with a sale-type lease which includes predominantly variable lease payments should be accounted for as an operating lease. This change would further clarify the true economics for all of the applicable stakeholders of the business.

**Question 3:** Should “predominant” be the threshold for determining when a lessor should classify a lease with variable payments that do not depend on a reference index or a rate as an operating lease? Alternatively, would another threshold be more appropriate and operable (for example, “substantially all”)? Please provide your rationale.

Yes. We believe that having the threshold of “predominant” (i.e., greater than 50%) would be appropriate for determining when a lessor should classify a lease with variable payments as an operating lease. We do have concerns that the word “predominant” is not defined, although it is included in BC12 as being equivalent in meaning to “majority.” We suggest that you consider defining “predominant” in the standard.

**Question 4:** Would the proposed amendments provide improved decision-useful information for users of financial statements? Why or why not?

Yes. We believe the proposed amendments would further clarify the true economics for all of the applicable stakeholders of the business.

**Issue 2: Option to Remeasure Lease Liability—Lessee Only**

**Question 5:** Are the proposed amendments operable? Why or why not?

Yes. We believe the proposed amendments to make an entity-wide accounting policy election to remeasure the lease liability are operable based on the variable payments becoming fixed in future periods.

**Question 6:** Should a lessee be provided with an option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based? Why or why not?

No. We believe the proposed amendments to give lessees an option to remeasure the lease liabilities based on the adjustment of future payments results in lack of comparability in financial statements. The overall adjustment to the financial statements does not add value to the overall users of the financial statements.

**Question 7:** Should a lessee be required to make an entity-wide accounting policy election to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based? Why or why not? If not, at what level should that accounting policy election be required to be applied?

Yes. We believe an entity should be required to make an entity-wide accounting election and not have the option to partially elect the accounting policy. We believe that users of the financial statements should be able to clearly identify an entity's accounting policy election because it affects the comparability of information.

**Question 8:** Would the proposed amendments provide improved decision-useful information for users of financial statements? Why or why not?

No. We believe the users of the financial statements would not benefit from this proposed accounting policy election. Users of financial statements rely on and benefit from consistent valuation of assets and liabilities from year to year.

**Question 9:** Would the comparability of information be significantly affected by the option to remeasure lease liabilities solely for a change in a reference index or a rate on which payments are based?

No. Although there may be inconsistencies in valuation, the notes to the financial statements would provide the relevant information needed to assist the users of the financial statements with the comparability of the financial statements.

### **Issue 3: Modifications Reducing the Scope of a Lease Contract**

**Question 10:** Are the proposed amendments operable? Why or why not?

Yes. We believe the proposed amendments are operable based on the availability of current and historical accounting records.

**Question 11:** Would the proposed amendments provide improved decision-useful information for users of financial statements? Why or why not?

Yes. We believe the proposed amendments would help to represent the true financial impact of a modification of a portion of a lease contract, would enhance the financial information that is provided to the users of the financial information, and would also give an entity flexibility to modify their lease contracts without impacting the remaining lease components.

**Question 12:** Are there other aspects of the modification accounting model in Topic 842 that could be improved without compromising the decision usefulness of the information provided?

We do not have any further suggestions on how to improve the accounting model in Topic 842.

#### **Transition**

**Question 13:** For entities that have not adopted Topic 842 by the effective date of a final Update of these proposed amendments, should the proposed amendments be applied at the date that an entity first applies Topic 842 using the same transition methodology in accordance with paragraph 842-10-65-1(c)? Why or why not?

Yes. We believe an entity should be consistent and use the same transition methodology in accordance with paragraph 842-10-65-1(c). The key for financial statement reporting is consistency and transparency.

**Question 14:** For entities that have adopted Topic 842 by the effective date of a final Update of these proposed amendments, should the proposed amendments be applied either retrospectively or prospectively as described in this proposed Update? Why or why not?

We believe the adoption of Topic 842 on a prospective basis would help to simplify the accounting and reporting. An entity would be required to disclose the adoption in the notes to the financial statements. The relevant information included in the notes to the financial statements would assist with comparability with prior periods.