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Hillary H. Salo
Senior Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2020-700

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements* (the "Proposed Update").

We appreciate the continued efforts of the Financial Accounting Standards Board (FASB) to address issues and concerns that have been identified by constituents as part of the adoption process for Topic 842. We agree with the proposals in the Proposed Update, and believe each of the proposals is operable and would provide improved decision-useful information for users of financial statements. Our responses to the specific questions raised in the Proposed Update follow.

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?*

> We believe the amendments in the Proposed Update are operable as affected entities are aware of the issue and can easily identify variable payments and determine whether the variability relates to an index or a rate.

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?*

> We do not believe lessors should be required to recognize a day-one loss on sales-type leases with predominantly variable lease payments, which is often the case in applying Topic 842 as it currently stands. We believe the existing requirement to exclude certain variable payments and recognize a loss distorts the economics of these arrangements.
>
> We believe accounting for such leases as operating leases, as proposed, accomplishes the primary objective of avoiding recognition of day-one losses without introducing complexity. Another alternative would be to require the lessor in these arrangements to apply a model similar to the variable consideration requirements of Topic 606, *Revenue from Contracts with Customers*. Under such a model, the lessor could include estimates of the variable lease payments. However, introducing such a requirement would also introduce judgment and complexity to the accounting, particularly if those estimates had to be adjusted in subsequent periods. Thus, we believe the proposal to account for

such leases as operating leases is a pragmatic solution aligned with the existing standards, and we support the proposal.

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.*

We believe "predominant" is the appropriate threshold.

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

We believe the proposed amendments would result in a more accurate depiction of the economics of these arrangements and, as a result, would provide improved decision-useful information for users of financial statements.

Issue 2: Option to Remeasure Lease Liability—Lessee Only

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

We believe the amendments in the Proposed Update that would permit a lessee to elect to remeasure lease liabilities are operable. All necessary information to remeasure the liability should be readily available, and entities that do not want to incur the time and effort to remeasure can continue to account for changes as a variable lease cost. Also, as noted in the Proposed Update, this option would reduce costs for dual-reporting entities because remeasurement is required by International Financial Reporting Standard (IFRS) 16, *Leases*.

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?*

We believe lessees should be provided an option to remeasure lease liabilities solely for a change in a reference rate or index. Providing such an option would enable lessees to remeasure consistent with IFRS 16, which, as noted in our response to Question 5, will reduce the costs for those entities that report under both U.S. GAAP and IFRS.

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?*

The rationale for providing this option is to reduce costs for entities that report under both U.S. GAAP and IFRS. Because IFRS requires remeasurement on an entity-wide basis, we believe the entity level is the appropriate level at which the election should be available.

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

We believe the proposed amendments would result in decision-useful information. As noted in paragraph BC16 of the Proposed Update, "In developing Topic 842, the Board recognized that remeasuring the lease liability provides the most updated information about a lessee's future cash obligations." However, the Board opted not to require such remeasurements "…based on feedback that the benefits of remeasuring a lease liability solely for changes in a reference index or a rate would not justify the costs associated with requiring that remeasurement."

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?*

We do not believe the comparability of information would be significantly affected by providing this option. Topic 842 already requires disclosure of significant variable lease payments. The disclosure should provide sufficient information to allow users to compare entities that elect to apply the option with entities that do not.

Issue 3: Modifications Reducing the Scope of a Lease Contract

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

We believe the proposed exemption from applying modification accounting when the remaining lease components are economically unaffected is operable. We believe all information needed to determine whether the conditions for the exemption are met is readily available to the parties involved in the transactions.

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

We believe that by not requiring a potential change in classification or accounting for components that are economically not affected by a modification, the proposed amendments would result in a more accurate depiction of the economics of these arrangements. As a result, we believe the proposed amendments would provide improved decision-useful information for users of financial statements.

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 are not aware of other aspects that warrant improvement.

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?*

We believe entities that have not adopted Topic 842 by the effective date of a final Update of the proposed amendments should adopt the amendments using the same transition methodology.

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 entities that have adopted Topic 842 before the effective date of a final Update of the proposed amendments should apply the transition provisions as described in the Proposed Update.

We appreciate the efforts the Board has put forth to be responsive to concerns raised by constituents related to the operability and costs of applying Topic 842. We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Faye Miller at 410.246.9194 or Richard Stuart at 203.905.5027.

Sincerely,

RSM US LLP

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