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December 4, 2020

Ms. Hilary Salo
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2020-700

Dear Ms. Salo:

We appreciate the opportunity to comment on Proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements* ("the Board's Proposal"). We support the Board's efforts to address several of the practical implementation issues that have arisen as constituents have adopted Topic 842, and we generally support the Board's proposed amendments for all three of the identified issues.

Our responses to the questions in the Board's Proposal have been attached as Appendix A.

Please contact Scott Lehman at (630) 574-1605 (scott.lehman@crowe.com) or Sean Prince at (646) 231-7285 (sean.prince@crowe.com) should you have any questions or would otherwise like to discuss our response.

Sincerely,

Crowe LLP

Crowe LLP

cc: Jim Dolinar, Partner, Crowe LLP

Appendix A – Responses to Questions

Issue 1: Sales-Type Leases with Variable Lease Payments

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

Yes, the proposed amendments are operable. Please also refer to our response to Question 3.

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 rate or index as an operating lease? Why or why not.

Yes, we support the Board's proposal to require a lessor to classify and account for a sales-type lease with predominantly variable lease payments that do not depend on a reference rate or index as an operating lease. We believe the income recognition pattern used for an operating lease would better reflect the economics of these types of leases, especially those leases that are expected to be profitable, as compared to the current accounting requirement under which a lessor would record an upfront or "day-one" loss followed by higher lease income over the lease term.

An added benefit of the proposed change is that it may provide operational relief to entities that report under both U.S GAAP and IFRS. Under IFRS 16, lessors must classify a lease as operating when it is clear that variable lease payments prevent the lessor from transferring substantially all the risks and rewards of ownership of the underlying asset. While IFRS 16 does not use the same "predominant" threshold as proposed by the FASB, we believe it is reasonable to conclude that lessor entities with dual reporting requirements under U.S. GAAP and IFRS would have fewer classification differences for leases with predominantly variable payments if the proposal were to be finalized.

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 have no objections to the Board's proposal to use "predominant" as the threshold for determining when a lessor should classify a lease with variable payments as an operating lease. Furthermore, we generally prefer a threshold focused on predominance over a "substantially all" threshold. We are concerned that a "substantially all" threshold would be too high and would result in many leases with predominantly, but not substantially all, variable payments being accounted for in a manner that bears little resemblance to the economics of the transaction.

We would recommend, however, that if the Board intends "predominant" to be interpreted as "majority" (see BC 12 of the Board's Proposal), it should state that fact in the Codification and not merely in the Basis for Conclusions. In practice, "predominant" is interpreted differently among reporting entities—ranging from a "majority" interpretation to something closer to "substantially all".[1] Therefore, if the Board has a specific definition for predominant for this purpose, it should be stated clearly in the Codification.

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 provide an accounting outcome that more accurately reflects the economics of the lease transaction. We do not believe it is decision-useful to recognize an upfront or day-one loss on a lease with predominantly variable lease payments when the economics of the lease transaction are projected to be profitable.

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[1] Diversity in interpretation occurs under Topic 480 (see ASC 480-10-25-14) and Topic 606 (see ASC 606-10-55-65A), among other areas.

Issue 2: Option to Remeasure Lease Liability – Lessee Only

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

Yes, the proposed amendments are operable. Furthermore, because the proposed amendments are optional, entities that might otherwise be burdened by remeasuring the lease liability upon a change in an index or rate (e.g., costs exceed the benefits of applying the proposed amendments) can simply choose not to apply the option.

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 support the proposed amendments that would allow reporting entities to choose to remeasure a lease liability due to a change in a reference rate or index on which lease payments are based. We believe this change will provide significant operational relief to entities that are required to report under both Topic 842 and IFRS 16 and that have indexed lease payments by eliminating the need for these entities to maintain dual sets of books and records.

While we acknowledge that making the proposed amendments may result in a lack of comparability between entities choosing to elect the proposed amendments and those choosing not to, we do not believe lessees should be required to remeasure lease liabilities to reflect changes in a reference rate index or a rate on which payments are based. Doing so would undermine the basis on which the guidance in ASC 842-10-35-4 through 35-5 was developed—that is, that the costs of remeasuring the lease liability will generally outweigh the benefits of doing so.[2]

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?

We support the Board's decision to make the policy election an entity-wide election rather than an election at some other level (e.g., asset class). The proposed policy election provides the greatest benefit to entities with dual reporting requirements under U.S. GAAP and IFRS, and those entities will likely apply the option entity-wide to reduce differences in reporting leases under the two frameworks. For other entities, we expect the policy will not be widely elected.

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

Conceptually, we believe remeasurement of a lease liability solely due to changes in a reference index or rate on which lease payments are based would provide decision-useful information to users of financial statements about the future cash outflows arising from an entity's lease obligations. However, as noted in our response to Question 6, we generally believe the costs of remeasuring the lease liability will generally outweigh the benefits of doing so.

We suggest the Board consider feedback from financial statement users, as they may be in a better position to address this question.

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?

Though we believe there will be instances where information reported for similar leases will be different between entities that elect to remeasure the lease liability and those that elect not to, we do not believe such differences will have a significant impact on financial statement users' decisions, since entities are required to disclose the nature and extent of significant variable lease payments.

[2] Refer to paragraphs BC234 through BC 237 of Accounting Standards Update 2016-02, Leases (Topic 842).

Issue 3: Modifications Reducing the Scope of a Lease Contract

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

We acknowledge the proposed amendments would increase the number of items a reporting entity must assess to determine the appropriate accounting for a modification; however, we believe the proposed amendments, including the increased number of steps, are operable. In addition, we generally support the Board's desire to simplify the accounting requirements (e.g., not require remeasurement of the remaining lease components) for partial terminations of lease contracts containing the right to use multiple assets.

However, prior to finalizing the proposed amendments for this issue, we encourage the Board to consider the following observations:

- The proposed amendments would result in a divergence between the modification frameworks used for lease contracts and for revenue contracts. We encourage the Board to address in their redeliberations and any final standard why their views about the importance of alignment between the two modification frameworks (especially for lessor entities) has changed since the issuance of ASU 2016-02.

- The proposed amendments would result in further divergence between the accounting requirements of Topic 842 and IFRS 16. While the stated intent of the proposed amendments for this issue is not focused on convergence, we challenge whether improving convergence for two issues while reducing convergence for another negatively affects the overall benefit of the proposed amendments to preparers with dual reporting requirements.

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

We do not believe the proposed amendments would significantly affect the decision-usefulness of information provided to users. However, we suggest the Board consider feedback from financial statement users, as they will be in a better position to address this question.

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 incremental suggestions at this time.

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 agree that entities that have not yet adopted Topic 842 should be required to apply the proposed amendments at the initial date of adoption of Topic 842 and under 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 have no objections to the Board's proposed transition guidance for entities that will have adopted Topic 842 prior to the finalization of the propose amendments.