Alphabet

December 8, 2020

Sent via email (director@fasb.org)

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

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

Dear Ms. Salo:

Alphabet Inc. ("Alphabet," the "Company," "we," "us," or "our") appreciates the opportunity to provide feedback on the Proposed Accounting Standards Update, *Leases (Topic 842), Targeted Improvements* (the "Proposal", "Proposed ASU"), exposed for comment by the Financial Accounting Standards Board (the "Board").

Alphabet is a collection of businesses, the largest of which is Google, and we generate revenues primarily by delivering relevant, cost-effective online advertising. It also includes non-Google businesses, collectively referred to as Other Bets, that use technology to try and solve big problems across many industries. We have entered into operating and finance lease agreements primarily for data centers, land, and offices throughout the world.

Proposed ASU

We commend the Board's willingness to address the implementation issues raised by stakeholders since the adoption of Topic 842 by public business entities as part of the Board's post-implementation review (PIR) of Topic 842. We specifically commend the Board's efforts to provide targeted improvements to Topic 842 that more closely align with the financial reporting in accordance with IFRS 16.

More broadly, however, we believe entities that have already implemented dual reporting processes may not fully benefit from the intended cost-effectiveness in subsequent alignment of targeted U.S. GAAP and IFRS financial reporting requirements (e.g., as part of PIR) because of the potential incremental costs and efforts associated with integrating the dual reporting processes for a given area of financial reporting. Therefore, we encourage that as part of future standards-setting the Board consider a more holistic approach that proactively contemplates potential cost-effectiveness concerns of dual reporting entities at the onset (i.e., at the time of developing a new standard).

Issue 1: Sales-type leases with variable lease payments—lessor only

We are supportive of the Board's practical approach to addressing stakeholders' concerns about potential recognition of loss at lease commencement for lease contracts that a lessor expects to be profitable overall by amending the lease classification requirements. While we agree that requiring lessors to estimate all variable lease payments would conceptually better reflect the underlying economics of a lease contract that a lessor expects to be profitable overall, we believe that such an approach to address the specific day-one loss issue would not be compatible with other reporting requirements in Topic 842 that prohibit estimation of most variable lease payments. We believe the practical solution proposed by the Board is a better approach overall as it would not only result in more relevant and decision useful financial information, but also more closely align with IFRS 16 without creating additional operational challenges.

We also agree that "predominant" is the appropriate threshold for determining whether a sales-type lease should qualify for an operating lease classification in accordance with the proposed amendment. We recommend that the Board's observation that the evaluation of fixed vs. variable lease payments is a binary evaluation, and therefore "predominant" is considered equivalent in meaning to "majority," should be included in the final guidance, or retained in the Basis of Conclusions of the final ASU, to aid with implementation of the proposed amendment.

Issue 2: Option to remeasure lease liability—lessee only

We are supportive of the proposed amendment that provides lessees with an option to make an accounting policy election to remeasure lease liabilities solely for changes in a reference index or a rate affecting future lease payments at the date those changes take effect. We agree that electing the option would provide the most updated information about a lessee's future cash obligations. We believe that the proposed requirement to disclose that election should to large extent address concerns about the comparability of financial information resulting from the optional nature of the proposed amendment.

Nonetheless, we note that entities who have already implemented dual reporting processes may face additional operational burden in integrating those processes and would require additional time to implement the changes should they decide to elect the option. Therefore, we request that the Board take into account these operational challenges when setting a deadline for adoption of the option to remeasure lease liabilities. We also believe that lessees should be allowed to apply the proposed accounting policy election at the level of the underlying asset class (such as real estate, technical infrastructure, etc.) rather than an entity-wide election, which would enable them to take into consideration the varying underlying economics specific to that asset class.

Transition

We agree with the proposed transition method options and transition disclosures when adopting the proposed amendments.

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Thank you for the opportunity to respond. We would be pleased to discuss our comments at your convenience.

Kind regards,

/s/ Gabor Turschl

Gabor Turschl
Director of SEC Reporting and Technical Accounting