



Grant Thornton

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Re: File Reference No. 2018-260

Dear Ms. Cospers:

Grant Thornton LLP appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU), *Leases (Topic 842): Narrow-Scope Improvements for Lessors*. We support the proposed amendments and believe that these clarifications will help in the adoption of ASC 842.

Our responses to the questions for respondents are as follows.

Sales taxes and other similar taxes collected from lessees

Question 1: Should a lessor's accounting for sales taxes and other similar taxes collected from lessees be aligned with Topic 606? If not, please explain why.

We believe that a lessor's accounting for sales taxes and other similar taxes collected from lessees should be aligned with Topic 606. Specifically, it is our view that lessors should be permitted to elect an accounting policy to present net (that is, to exclude from both revenues and costs) all taxes assessed by a governmental authority that are both imposed on and concurrent with a revenue-producing transaction and are collected by the lessor from the lessee. However, we recommend that the Board clarify that such an election should apply to both revenue and leasing transactions entered into by the lessor, that is, a lessor should not make a different accounting policy election for revenue transactions accounted for in accordance with ASC 606 and leasing transactions accounted for in accordance with ASC 842.

Question 2: Is the proposed accounting policy election, as written in this proposed Update, operable? If not, please explain why.

We believe that the accounting policy election as written is operable.

Question 3: Would the proposed accounting policy election result in a reduction of decision-useful information to users of a lessor's financial statements? If so, please explain why.

We defer to financial statement users to provide feedback on this question.

Question 4: Should a lessor's accounting policy election for sales taxes and other similar taxes collected from lessees be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.

We believe that lessors should be permitted to apply this accounting policy election either to all existing and new contracts or only to new contracts. It is our view that requiring lessors to apply this accounting policy election to all existing and new lease contracts could impose unnecessary costs on lessors, who might be challenged to obtain information about sales taxes and other similar taxes for their existing contracts, and we do not believe that a lessor who is unable to readily obtain the necessary information to apply this accounting policy to existing leases should be precluded from applying it to new leases. However, lessors who can readily obtain the necessary information for existing leases should be permitted to apply this accounting policy to all existing and new lease contracts to enhance comparability.

Certain lessor costs paid directly by lessees

Question 5: Should a lessor be required to exclude certain lessor costs paid directly by lessees to third parties on behalf of a lessor as variable payments when the uncertainty in the amount is not expected to ultimately be resolved? If not, please explain why.

We believe that a lessor should be required to exclude certain costs paid directly by the lessee to third parties on behalf of a lessor from variable payments when the uncertainty in the amount paid by the lessee is not expected to ultimately be resolved.

However, we believe that application of the proposed guidance as written could have an anomalous effect on sublessors, and that similar guidance therefore should apply to a sublessor's accounting for the head lease. For example, assume that a lessee subleases an underlying asset to a sublessee, and the nature of the sublease is such that the lessee is not relieved of its primary obligation under the head lease. Therefore, the lessee accounts for the sublease separately from the head lease. In this fact pattern, the lessee might be unable to readily determine the costs paid by the sublessee on behalf of the head lessor. Without expanding the policy to the lessee's accounting for the head lease, the lessee would be required to estimate the costs paid on behalf of the head lessor, and to recognize those costs as variable lease payments. The resulting presentation (gross for the head lease and net for the sublease) could mislead financial statement users, indicating that the proceeds from the sublease are insufficient to cover the cost of the head lease.

Question 6: Are the proposed amendments for the accounting for certain lessor costs operable? If not, please explain why.

We believe that the proposed amendments for the accounting for certain lessor costs directly paid by the lessee are operable.

Question 7: Would the proposed requirement for a lessor to not report certain lessor costs paid directly by a lessee to a third party on behalf of the lessor result in a reduction of decision-useful information to users of a lessor's financial statements? If so, please explain why.

We defer to financial statement users to provide feedback on this question.

Question 8: Should the proposed amendment in paragraph 842-10-15-40A to exclude certain lessor costs paid directly by lessees on behalf of a lessor as variable payments be applied to new lease contracts only or to all existing and new lease contracts? Please explain your rationale.

We believe that the proposed requirement to exclude certain costs paid directly by the lessee to third parties on behalf of a lessor from variable payments when the uncertainty in the amount paid by the lessee is not expected to ultimately be resolved should be applied to all existing and new lease contracts.

Recognition of variable payments for contracts with lease and nonlease components

Question 9: Would the proposed amendments clarify the application of paragraph 842-10-15-40? If not, please explain why.

Yes, the proposed amendments would clarify the application of paragraph 842-10-15-40.

Question 10: Are the proposed amendments for the accounting for certain variable payments for contracts with lease and nonlease components operable? If not, please explain why.

Yes, the proposed amendments to paragraph 842-10-15-40 are operable.

Transition and effective date for early adopters

Question 11: How much time would be needed to implement the amendments in this proposed Update for an entity that early adopts Update 2016-02 before these proposed amendments are finalized? What transition method and transition disclosures should those entities be required to apply (provide)? Please explain your reasoning.

We defer to financial statement preparers to provide feedback with respect to the time needed to implement the proposed amendments.

We believe that an entity should adopt the proposed guidance using the same transition method used to adopt ASU 2016-02, and should provide similar disclosures to those required for other practical expedients applied for the transition to, and the ongoing application of, ASC 842.

Question 12: Should the effective date for the amendments in this proposed Update be aligned with that of Update 2016-02? If not, please explain why.

We believe that the effective date for the amendments in this proposed Update should be aligned with that of ASU 2016-02.

We would be pleased to discuss our comments with you. If you have any questions, please contact Rahul Gupta, Partner, 312 602 8084, rahul.gupta@us.gt.com or Ryan Brady, Partner, 312 602 8741, ryan.brady@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP