
GRANT THORNTON LLP

Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)
twitter.com/grantthorntonus

July 16, 2021

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

Via Email to director@fasb.org

Re: File Reference No. 2021-003

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*.

We appreciate and support the Board's efforts to solicit and respond to stakeholder feedback on the costs and complexities of applying the guidance in ASC 842.

Our responses to certain of the questions in the proposed ASU follow.

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

In our experience both the existing risk-free rate expedient and the lessee component combination expedient (which is applied by class of underlying asset) in ASC 842 are operable. Accordingly, we expect the amendments in the proposed Update to be operable.

Question 2: Would the proposed amendments reduce costs of implementing the guidance or applying it on an ongoing basis? Why or why not?

We have observed that one of the primary challenges for lessees adopting ASC 842 is developing a process to estimate the incremental borrowing rate. We have also observed reluctance by some entities to elect the risk-free rate expedient because doing so requires application to all leases and may materially increase the measurement of an entity's lease liabilities. In other words, in many cases the cost of

electing the expedient (increased measurement of lease liabilities) outweighs the benefit (forgoing the process of estimating the incremental borrowing rate). We believe that the proposed amendments will in many cases change the outcome of lessees' cost versus benefit analyses such that more entities will elect the risk-free rate expedient (that is, the benefits will more often outweigh the costs), thereby reducing the costs of implementing and applying on an ongoing basis the guidance in ASC 842.

Question 3: Should an entity that is not a public business entity be allowed to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level? Why or why not?

Yes, we believe that entities other than public business entities should be allowed to elect the risk-free rate expedient by class of underlying asset. As described in our response to Question 2, we believe that this amendment will reduce the costs of implementing and applying on an ongoing basis the guidance in ASC 842.

Question 4: Should an entity making the risk-free rate election be required to disclose that fact and to which asset classes it has elected to apply a risk-free rate?

Yes, we believe it is important to identify the asset class(es) for which an entity has elected the risk-free rate expedient.

Question 5: Should an entity be required to disclose the weighted-average discount rate separately for leases for which a risk-free rate is used and all other leases (those that are measured using an incremental borrowing rate or the rate implicit in the lease)? For investors and other financial statement users, would a weighted-average discount rate that combines risk-free rates, incremental borrowing rates, and rates implicit in the lease into one measure provide decision-useful information? If separate disclosures were made, how would those weighted average rates be used and for what purpose (be specific, including what calculations would be done and when that information would influence decisions)? Please explain your reasoning.

We believe the usefulness of the disclosures will be enhanced by requiring separate disclosure of weighted-average rates by methodology (i.e. separate weighted average incremental borrowing and risk-free rates). We defer to users to describe how such information would be used.

Question 6: Considering the discussion in paragraph BC18 of this proposed Update, would replacing a risk-free rate in the election with another specified rate, such as a corporate bond rate, be operable? What effect would that replacement have on the cost of applying the amendments, if any?

We defer to financial statement preparers to comment on the operability of an expedient based on a rate other than the risk-free rate. However, in our view linking the expedient to another rate would likely detract from the benefit of this expedient in terms of reducing the cost and complexity of identifying the appropriate discount rate to use in measuring and recognizing a lease under ASC 842. We also believe that replacing the risk-free rate in this election with another rate would increase the cost of

auditing its application. Therefore, we believe that the expedient should remain linked to the risk-free rate.

Question 7: Should the rate implicit in the lease be required when it is readily determinable (for example, in certain related-party leases) for lessees applying the risk-free rate election? Why or why not?

Yes, we believe that the rate implicit in the lease best reflects the cost of the financing element of a lease and should be used to measure the lease liability (and recognize interest cost in a finance lease) when the rate is readily determinable.

Question 8: Should an entity that has not yet adopted Topic 842 be required to adopt the proposed amendments at the same time it adopts Topic 842, using the existing transition provisions in paragraph 842-10-65-1? Why or why not?

Yes, we agree that an entity should adopt the proposed amendments at the same time it adopts ASC 842.

Question 9: For an entity that has adopted Topic 842 before the issuance of a final Update, should the proposed amendments be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with earlier application permitted? Why or why not?

Yes, we believe that the proposed effective date and option for early application will provide sufficient time and flexibility for entities to adopt the proposed guidance.

Question 10: Should an entity that has adopted Topic 842 before the issuance of a final Update apply the proposed amendments on a modified retrospective basis through an adjustment to the lease liability and corresponding right-of-use asset for affected leases existing at the beginning of the year of adoption of a final Update? Why or why not?

Yes. We believe that requiring full retrospective application would be burdensome and inconsistent with the general transition methodology for the guidance in ASC 842, and that prospective application would result in potentially a long period during which leases associated with a single asset class might be measured based on different rates (that is, some based on a risk-free rate and others based on an incremental borrowing rate). Therefore, we prefer a modified retrospective transition method.

We would be pleased to discuss our comments with you. If you have any questions, please contact Ryan Brady, Partner, at 312.602.8741 / ryan.brady@us.gt.com, or Rahul Gupta, Partner, at 312.602.8084 / rahul.gupta@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP