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January 16, 2023

Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue, PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2022-ED500

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update *Leases (Topic 842): Common Control Arrangements*.

Overall, we believe that the proposed amendments in Issue 1 are operable and have some suggestions to enhance the clarity and improve the operability of the proposed amendments in Issue 2. Our answers to selected questions from the exposure draft are detailed below.

Issue 1: Terms and Conditions to Be Considered

Question 1: Are the amendments in this proposed Update operable for private companies and not-for-profit entities that are not conduit bond obligors? If not, which proposed amendments pose operability or auditability concerns and why?

Overall, we believe that the proposed amendments are operable and auditable.

We note that there has been diversity in interpretations around the application of ASC 842 to related party leases beyond entities under common control. For example, we are aware of differing views as to whether legally enforceable terms related to payment allocation (for example, contractually-specified amounts attributable to lease and nonlease components) take precedence over the allocation guidance (for example, relative standalone price) in ASC 842. We note that paragraph BC20 seems to indirectly address this point, stating "... applying the practical expedient does not eliminate the need for an entity to apply other relevant guidance in Topic 842. For

example, an entity would still be required to determine whether an arrangement contains lease and nonlease components”. If it is the Board’s intent that entities apply the general allocation guidance in ASC 842 to related party lease arrangements (including common control arrangements), we suggest that this be clearly stated in paragraph BC20 or elsewhere in the final ASU.

Question 3: Are the proposed transition methods appropriate? Please explain why or why not.

We believe that the proposed transition methods are operable. We believe that the guidance allows an appropriate level of flexibility for entities adopting the proposed amendments, because of the optionality of electing the expedient on an arrangement-by-arrangement basis and the optionality of applying transition guidance prospectively or retrospectively.

Question 4: Should an entity be permitted to document any existing unwritten terms and conditions of an arrangement between entities under common control before the date on which the entity’s first interim (if applicable) or annual financial statements are available to be issued in accordance with the proposed amendments? Please explain why or why not.

We believe that allowing an entity to document existing terms and conditions in conjunction with transitioning to the proposed standard is a reasonable and practical accommodation.

Issue 2: Accounting for Leasehold Improvements

Question 5: Are the proposed amendments operable for all entities? If not, which proposed amendments pose operability or auditability concerns and why?

While the Board noted in BC22 that the reason to extend the guidance in Issue 2 to public companies is perceived diversity in practice for both public and nonpublic entities, we find the discussion of the feedback on public companies in the Alternative Views, paragraphs BC46 and BC47 to be compelling. Further, we are not aware of an existing issue that needs to be addressed for public companies. Therefore, we believe that the scope for Issue 2 should be aligned with that of Issue 1. An entity not in the scope of the proposed practical expedient in Issue 1 has already adopted ASC 842 and has already accounted for its leases based on the legally enforceable terms and conditions of the arrangement and should therefore be able to account for the leasehold improvements on the same basis.

We acknowledge the discussion in BC26 of the proposed amendments surrounding the decision to require the use of economic life rather than useful life as the amortization period for leasehold improvements in arrangements between entities under common control. However, we believe that the use of economic life rather than useful life could create inconsistencies that may lead to issues in practice. For example, proposed paragraph 842-20-35-12B requires the use of ASC 360-10-40-4 to evaluate impairment of leasehold improvements accounted for under the proposed amendments. That impairment guidance requires testing for impairment based on “the use of the asset for its remaining useful life, assuming that the disposal transaction

will not occur". We believe the Board should consider whether the difference between economic life and useful life could cause complexities in accounting for impairments of leasehold improvements accounted for under the proposed guidance.

Other areas in which the use of economic rather than useful life could result in issues in practice are (1) when the common control lessee distributes the leasehold improvements to the lessor in accordance with proposed paragraph 842-20-35-12A and the lessor applies ASC 360 to depreciate the assets over their useful lives, and (2) when a common control lessor and lessee are presented in the consolidated financial statements of the control group which applies ASC 360 to depreciate the assets over their useful lives. We encourage the Board to consider whether these, and any other, practice issues may exist related to using the economic rather than useful life for leasehold improvements in arrangements under common control.

Question 6: Would the proposed amendments provide clarity, reduce diversity, or both in the accounting for leasehold improvements associated with common control leases? Please explain why or why not.

We believe that any diversity related to the current accounting for leasehold improvements in arrangements between entities under common control is a result of the lessee's assessment of lease term rather than the determination of the useful life of leasehold improvements, for which clear guidance exists in ASC 842-20-35-12. The guidance ASC 842-10-55-26 states that significant leasehold improvements which are expected to have economic value during option periods being assessed are an example of economic factors a lessee should consider in determining whether it is reasonably certain to exercise or not exercise an option. We note that if the proposed guidance is finalized for all entities, including those not able to apply the practical expedient proposed in Issue 1, then the determination of lease term in common control arrangements may become more challenging, and further diversity in practice may arise in the evaluation of lease term for those arrangements.

Question 8: Do you agree with the proposed disclosure requirements? Please explain why or why not and whether any additional disclosures should be required.

We believe that the proposed disclosure requirements are operable and are incremental to the related party disclosures currently required for these arrangements in ASC 850 *Related Party Disclosures*. We defer to financial statement users as to their needs for any additional information about leasehold improvements in common control arrangements.

Question 9: Are the proposed transition methods appropriate? Please explain why or why not.

We believe the transition methods are operable.

Effective Date

Question 11: Should the effective date of the proposed amendments for Issue 2 be the same for all entities? Please explain why or why not.

As noted in our response to Question 5, we believe that the scope of Issue 2 should be aligned with that of Issue 1, in which case we believe the effective date of the amendments in the issues could be similarly aligned.

If the scope of the two issues remains as proposed, we believe that the effective dates could be similarly aligned, and do not believe that there would be a need to provide a longer transition period for nonpublic entities, as the amendments are being issued to clarify existing guidance where the Board has received feedback about significant diversity in practice.

Question 12: Should the proposed amendments for both Issue 1 and Issue 2 be effective for all entities during interim periods within the fiscal year of adoption of a final Update unless those entities have not yet applied Topic 842 in interim periods? Please explain why or why not.

For private companies, we would support applying the Private Company Decision-Making Framework, which states that generally, amendments for private companies should be effective first for annual periods and then for interim periods. If the Board is considering a deviation from that framework, we would defer to financial statement users as to their needs for the information in the proposed amendments during interim periods in the year of adoption for those entities.

Question 13: Should early application of the proposed amendments for both Issue 1 and Issue 2 be permitted? Please explain why or why not.

We support providing an option for entities to apply the standard early for both Issue 1 and Issue 2.

We would be pleased to discuss our comments with you. If you have any questions, please contact Carolyn Warger, Partner, at 617.848.4838 or carolyn.warger@us.gt.com or Ryan Brady, Partner, at 312.602.8741 or ryan.brady@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP