October 6, 2017

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Chairman Golden,

We are writing to make you aware of certain developments related to the implementation of Accounting Standards Update 842, Leases (ASC 842). The Committee on Corporate Reporting (CCR) of Financial Executives International (FEI) continues to support the recognition and measurement decisions the Board made during its deliberations on the standard. The issues we highlight in this letter are not a reflection of the quality of the standard but rather the practical realities of transitioning to new requirements related to a pervasive activity that involves high transaction volumes. It is our hope that the Board receives these comments in this light.

As you know, CCR has been monitoring work related to the implementation of ASC 842 since the standard's issuance. Among other actions taken by CCR was a survey of its member companies, which confirmed a concern that there currently is no broadly available, fully compliant software solution capable of supporting a cost-effective and well-controlled implementation. Given the concerns related to systems readiness, our membership has considered how a possible deferral of the effective date and/or technical amendments to the standard may aid in an efficient and timely completion of implementation efforts.

The concerns regarding systems readiness are driven by the fact that many software solutions are currently unable to address certain technical aspects of the standard's accounting, disclosure, and transition requirements. These challenges are amplified for companies with thousands or, in some cases, tens of thousands of non-standard, multi-currency real estate and equipment leases.

As a result of the readiness gap identified in the survey, many of our members would support a deferral of the effective date of the standard. However, recognizing that there may be reluctance on the Board's part to a deferral, CCR believes that the Board should consider the technical amendments proposed in this letter in order to ensure that companies are able to adopt in a manner that is both cost-effective and well-controlled. Specifically, CCR proposes that the Board amends the following:

(1) The requirement for comparative reporting by making retrospective reporting optional (thus eliminating additional tangential issues related to comparative reporting),
(2) The scope of ASC 842 to exclude contracts which lack fixed consideration, and

(3) Certain disclosure requirements, as detailed below.

Our goal in requesting these amendments is to ensure timely adoption with appropriate software solutions, in a manner that ensures we also meet our obligations for effective internal controls related to accounting and financial reporting risks associated with adoption of a new accounting standard of this magnitude.

Background

Adoption of ASC 842 is required for public companies in 2019 using a modified retrospective approach. The comparative periods (two years of balance sheets and three years of income and cash flow statements under SEC rules) have already begun for calendar year-end companies, as they include 2017 and 2018. The effect of this new standard is significant and pervasive, and will impact the activities of almost every business unit in every jurisdiction in which our members operate. Effective implementation requires coordination from finance, IT, legal, tax, treasury, procurement and operations. Furthermore, the impact and effort involved to implement the standard is compounded by the global reach of our membership and the level of effort currently invested in adopting other major accounting standards, such as ASC 606, *Revenue from Contracts with Customers*.

As a committee of corporate controllers responsible for financial reporting, we are committed to:

- The effective implementation of the new leases standard, and
- Ensuring we have effective systems and processes in place to adopt the new leases standard on time and under an effective internal control over financial reporting (ICFR) environment.

As companies began to operationalize ASC 842 they turned to software vendors, out of necessity, to assist in the implementation. While many vendors have products that handle lease administration under ASC 840, all vendors must develop new systems and software to address the classification, measurement, recognition, and other complexities of bringing leases onto the balance sheet. Nineteen months after the final standard was issued, vendors are still working to ensure their software will be ASC 842 compliant. While we believe the vendors will ultimately have software solutions with all necessary functionality, we understand that more time is needed to finalize development and then to design the required internal controls processes and systems for the new standard. Accordingly, many of our members have had to select a system that currently lacks required functionality that a comprehensive system solution should have, making their implementation essentially equivalent to a beta test platform for certain software solutions. Further, in addition to the lack of availability of an ASC 842 compliant solution by the beginning of the comparative period (January 2017 for a calendar year-end company) vendors have also communicated that system development may not even be fully complete by the adoption date (2019).

As discussed above, CCR appreciates and fully supports the FASB's decision to take a different approach from the IASB. We continue to believe the model in ASC 842 is more reflective of lease economics and how these transactions should be portrayed in financial statements. However, we also wish to acknowledge the differences in the regulatory environment U.S. multi-national filers are subject to when adopting and operating under ASC 842, which creates an additional layer of complexity when comparing IFRS 16 to ASC 842. The approach to leases presented in ASC 842 has significant benefits for users and preparers, and we appreciate the practical expedients allowed under ASC 842.

Despite the actions taken by the FASB to ease the burden of implementation on preparers, our members continue to experience systems issues associated with:

- Reassessment events (including modifications) and related remeasurement criteria;
- Disclosures required for short-term lease expense;
- Calculation of the incremental borrowing rate;
- Statutory reporting requirements in other countries;
- Segregation, collection and disclosure of variable lease costs;
- Disclosure of weighted average discount rates and lease terms, which is further complicated in multicurrency environments;
- Information related to comparative period reporting; and
- Acceleration of the collection of lease information to meet interim reporting requirements.

The above list is not exhaustive, but is intended to highlight that adoption is not as simple as an exercise to present value lease payments for initial recognition for large, diverse organizations. In addition, during the development and deliberation of the final standard, a concurrent evolution of views on balance sheet and disclosure materiality and an increasing and more granular approach to internal controls over financial reporting were emerging, which collectively added additional complexities for preparers and leasing software vendors to respond to. While these are technical accounting issues, they represent some of the many nuances that vendors must incorporate into their systems capabilities to be ASC 842 compliant.

It is also worthwhile to note that the accounting firms have been working diligently on interpreting ASC 842 requirements and have issued extensive interpretative guidance. Such interpretations further complicate adoption as they address nuances that are not necessarily addressed in ASC 842. The continued discussion of technical issues this close to implementation (which impacts system development) becomes problematic. Several interpretations highlight significant unintended operational and implementation challenges for preparers and systems. It should also be noted that while the lessor model was intended to be largely unchanged, firm interpretations may impact lessor accounting. Most companies are still finalizing ASC 606 related positions with their auditors. For captive lessors, many of these positions must be incorporated into ASC 842 adoption, especially around allocations among the lease vs. non-lease elements. The delay in ASC 606 positions cascades directly into a delay in ASC 842 implementation.

Given these factors, we believe a timely and well-controlled implementation would benefit from further simplification of the standard, especially provisions related to transition. Our specific recommendations are listed below.

Amendments Requested

Comparative Reporting

A significant portion of the issues preparers are facing stem from the requirement to restate the comparative financial statements. Amending this requirement to be optional would significantly ease the burden of adoption, and would not, in our view, deprive investors of valuable information. Additionally, note that IFRS 16 does not require companies to restate prior periods.

By eliminating the requirement for comparative reporting, many of the other consequential issues preparers are facing will be ameliorated. Some of these consequential issues include, but are not limited to: how systems accommodate foreign currency exchange rates during the comparative periods, assessing and tracking agreements expiring during the transition period, and other issues related to disclosures under comparative reporting.

Scope

We suggest limiting the scope of ASC 842 in a reasonable manner to allow preparers to effectively operationalize the new lease standard while maintaining the quality of financial reporting. We ask that the standard be amended to provide for a scope exception for contracts which lack fixed consideration for both lessees and lessors (i.e., 100% variable lease payments). Under ASC 840, most companies did not have a process to identify leases in such variable-only arrangements, as there was no accounting impact (i.e., expense variable cost as incurred), and disclosures under ASC 840 emphasized leases with fixed commitments. While the accounting for such variable-only arrangements has not changed from ASC 840 to ASC 842, the new variable lease cost disclosure would require preparers to implement processes and systems to identify variable-only lease arrangements, measure the lease component and capture costs as they are incurred. Such efforts are particularly burdensome as many variable-only arrangements are embedded in what would otherwise be viewed as a service arrangement.

Disclosure

ASC 842 requires a significant increase in disclosures which are proving to be a challenge for systems, and, in some cases, require separate work streams and use of interim manual solutions. We ask that the Board reconsider these disclosures given the significant cost and complexity associated with developing them. Specifically, CCR suggests:

- Eliminating the short-term lease expense and geography disclosure requirement because the limited value and impact of such information does not outweigh the cost to track what is often a high volume of low-value leases, and

- Allowing leases in foreign currencies to be disclosed in the currency of the lease, if material. Preparers are finding that systems frequently have challenges when accounting for leases in foreign currencies and when calculating weighted average lease term and discount rates in the reporting currency as these systems are designed to rely on the ERP system currency conversions and do not capture and retain exchange rates. Therefore, to prepare these disclosures, many companies would need to implement a manual solution to compile the data and apply the appropriate rates. Permitting preparers the option to disclose these quantitative metrics in local currencies would eliminate some of the system challenges.

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By providing the Board with this information and insight now, we hope to encourage the Board to actively engage with companies related to the adoption of the new leases standard and to give full consideration to our recommendations from the perspective of supporting an efficient, effective, and well-controlled adoption of the new standard.

We stand ready to discuss our findings and proposals with the Board.

Sincerely,

Mick Homan

Mick Homan
Chairman, Committee on Corporate Reporting
Financial Executives International