NYS SOCIETY OF CPA's
NYSSCPA

July 14, 2021

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

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update—*Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*

(File Reference No. 2021-003)

Dear Ms. Salo:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Sean C. Prince, Chair of the Financial Accounting Standards Committee, at (646) 231-7285, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Rumbi Bwerinofa-Petrozzello
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE—*LEASES (TOPIC 842): DISCOUNT RATE FOR LESSEES THAT ARE NOT PUBLIC BUSINESS ENTITIES*

(File Reference No. 2021-003)

July 14, 2021

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update—*Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*

(File Reference No. 2021-003)

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on Proposed Accounting Standards Update—*Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities* (proposed Update).

General Comments

We fully support the Board's proposal to provide more flexibility in how reporting entities that are not public business entities (PBEs) determine the discount rate used to measure lease liabilities and right-of-use (ROU) assets under Topic 842, *Leases*. Our responses to the specific questions for respondents follow.

Questions for Respondents

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

Response: Yes, the proposed amendments are operable. We support the additional flexibility provided to the risk-free rate election and believe it will allow reporting entities that are not PBEs to more cost-effectively implement Topic 842, *Leases* (Topic 842).

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

Response: If the additional flexibility provided by the proposed Update results in more eligible reporting entities using the risk-free rate election in lieu of their incremental borrowing rate, we believe the proposed amendments would reduce the costs of implementation and application. Reporting entities that elect to use the risk-free rate as its discount rate would not need to incur costs to determine the relevant incremental borrowing rate, including the possible incremental costs of having that rate audited. These costs can, at times, be significant.

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?

Response: Yes, reporting entities that are not PBEs should be permitted to make the risk-free rate election at the asset class level. This added flexibility would allow reporting entities to use the risk-free rate when the incremental borrowing rate is not readily determinable, but still use the incremental borrowing rate to measure lease liabilities and ROU assets when it is readily determinable and is the reporting entity's preferred approach.

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?

Response: Yes, given the additional flexibility provided by the proposed Updates, we agree that a reporting entity should be required to disclose that it has elected to use the risk-free rate and the asset classes to which it has elected to apply the risk-free rate.

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.

Response: We do not believe separate disclosure is necessary, although we encourage the Board to consider the needs of users of financial statements in its deliberations.

Question 5(a): For preparers of financial statements, would requiring disclosure of the disaggregated weighted-average discount rates as described in Question 5 add cost relative to the current requirement to disclose one weighted-average discount rate? Please be specific and explain the nature and significance of that added cost.

Response: We do not believe, in most cases, that the cost of providing disaggregated weighted-average discount rates would be significant. For some entities, there may be an incremental, one-time cost of developing the required process to disaggregate the underlying data.

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?

Response: We support the Board's decision to use a risk-free rate versus a corporate bond rate. We agree with the basis for conclusions as articulated in paragraph BC18.

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?

Response: Yes, if the rate implicit in the lease is readily determinable, we believe it should be used because it best reflects the economics of the lease. However, we do not expect the rate implicit in the lease to be readily determinable in most situations.

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?

Response: Yes, we believe it would be most effective and efficient for the proposed amendments to be adopted at the same time as Topic 842. We do not believe users would benefit from a subsequent remeasurement of ROU assets and lease liabilities due to the separate adoption of the proposed amendments at a later time if the reporting entity has not yet adopted Topic 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?

Response: We support the proposed effective date.

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?

Response: We support the proposed transition methodology for reporting entities that have previously adopted Topic 842. We believe the transition guidance is clear and operable.