

Private Company Financial Reporting Committee

401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116
e-mail: judyodell@dmv.com

443-480-5800



Judith H. O'Dell CPA CVA
Chair

December 15, 2010

Ms. Leslie Seidman
Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Proposed Accounting Standards Update, Leases (“proposed ASU”)

Dear Ms. Seidman:

The Private Company Financial Reporting Committee has reviewed the proposed Accounting Standards Update titled *Leases* and provides its recommendations and comments below. Committee members, especially the financial statement users, have long believed that lease accounting needs to be improved and appreciate the FASB addressing this challenging area of accounting and financial reporting.

Respondent Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

(b) Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

PCFRC Response

The PCFRC conceptually agrees that a lessee should generally recognize the liability to make lease payments but the recognition of the right-of-use asset and the amortization and interest may pose some practical problems that need to be addressed as discussed further.

Respondent Question 2: Lessors

(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

PCFRC Response

Conceptually, the PCFRC generally agrees with the FASB's approaches (performance obligation or derecognition) to lessor accounting. Also, the Committee agrees that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP.

The Committee recommends that the FASB provide further guidance on the definition of "exposure to significant risks of benefits" as that term is used in the application of the performance obligation approach to lessor accounting. Examples of what risks and benefits would be significant are needed. Absent further guidance and examples, diversity in practice may result and comparability may suffer.

Respondent Question 3: Short-term leases

This exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is 12 months or less:

(a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognize lease payments in the income statement over the lease term (paragraph 64).

(b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognize assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognize any portion of the underlying asset. Such lessors would continue to recognize the underlying asset in accordance with other Topics and would recognize lease payments in the income statement over the lease term (paragraph 65).

(See also paragraphs BC41–BC46.)

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

PCFRC Response

On the basis of cost-benefit considerations, the PCFRC recommends that arrangements in which the most likely term, including renewal clauses, is twelve months or less should not be required to be capitalized. The pure volume of short-term arrangements can increase costs significantly if private companies are required to account for each short-term arrangement under the proposed ASU. The proposed guidance for short-term leases is not practical in common situations in which private companies execute short-term leases for items such as copiers, short-term office space, construction cranes, and empty store fronts during certain holiday seasons.

Furthermore, the financial statement users on the PCFRC see little benefit in accounting for and reporting short-term arrangements as long-term leases with asset and liability accounting. Private company financial statement users would prefer to treat short-term lease payments as rent expense and disregard related assets and liabilities presented on the balance sheet. The cost and effort that would be incurred by financial statement preparers and practitioners would not be worthwhile. Moreover, private company financial statement users are concerned that the calculation of EBITDA will be skewed by the proposed accounting for short-term leases.

Such short-term arrangements are normally rentals and not long-term leases and the PCFRC recommends that the FASB differentiate between the two. In addition, if the proposed guidance for short-term leases remains, the PCFRC recommends that the payments be classified as rent expense and that the FASB make this clear in the final standard.

Entities with Long-term Contracts

Some entities, such as construction companies, typically rent equipment such as cranes, backhoes, compressors and generators that are charged directly to job costs. Many construction contracts specify what costs are reimbursable. Interest is not, as it is considered home office overhead. If construction company lessees are required to account for the equipment they are “renting” for use on specific jobs under the proposed ASU (and therefore separate the interest component), these job costs might not be billable. The PCFRC recommends that these types of leases not be required to be capitalized.

Understandably, the users of financial statements need to know the existence of lease commitments. In the construction industry, leases (or more appropriately, rentals) of construction equipment specifically for the performance of a construction project are already included in the work in progress schedules, and in the software tracking systems as “committed costs.” When outside users of construction company financial statements review the projects, these rental commitments are included in the projected costs to complete. The existence of these rental arrangements and the fact that they are

included in estimated costs to complete could be disclosed in the notes to the financial statements. If circumstances have resulted in the halting of a project, then disclosure would need to be made about how these rental agreements would be satisfied outside the construction contracts. In practice, full payment of these obligations upon termination of a construction project is rarely required, although there may be an assessment of demobilization charges.

Respondent Question 4

(a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

(b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

(c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

PCFRC Response

The definition of a lease and what arrangements are included and excluded from that definition is a critical issue. The PCFRC believes that the FASB needs to be very specific on how it defines a lease in the final standard to avoid manipulation of the definition and structuring. The proposed definition of a lease appears to be very restrictive and excludes many arrangements that are accounted for as leases today. As it is currently presented in the proposed ASU, the PCFRC is concerned that the proposed definition and scope of a lease would result in inconsistent treatment for similar leases.

The most questionable area to the Committee is the notion of “substitution of similar assets”, specifically the proposed guidance that a contract that permits an entity to substitute a similar asset for the specified asset after the date of commencement of the lease does not constitute a lease because the underlying asset is not specified, even if the contract explicitly identifies a specified asset. The PCFRC finds this guidance on substitution of similar assets unclear and difficult to apply. In considering arrangements where a substitution of similar assets may occur, the Committee believes that many private companies will struggle with determining whether the arrangement is a lease or is a service contract.

For example, the PCFRC is aware that some private companies lease specifically identifiable rail cars. Those specific rail cars may be used for years by the company. Nevertheless, the railroad has the right to substitute similar rail cars if the specifically leased rail cars are not available to be used by the lessee for various reasons, such as when the geographic location of a rail car makes it impractical to move it through the railroad system in a timely manner to the company. These substitutions are commonplace. Today private companies consider these arrangements to be leases,

however the proposed ASU seems to indicate that such arrangements would not be leases, given the right of the lessor to substitute similar assets.

As another example, with a typical copier lease if the lessor has the right to remove and replace the copier, the proposed ASU seems to indicate that such arrangement would not qualify as a lease, but instead would perhaps be a service contract.

A growing trend in the private company sector is the leasing of inventory. For example, companies may lease tires for earth moving equipment, jet engines, and spare parts. The company has a liability related to the arrangement and controls the inventory at its location. The items remain as inventory until the company decides to use the item, at which time the company installs the item and pays the lessor for it. In many cases, while the items exist in a lessee's inventory, the lessor has the right to substitute similar assets.

Sufficient and clarified language and implementation guidance will be necessary in the final standard to explain how the above examples are to be accounted for and, more generally, to explain what arrangements are leases and which ones are not. The PCFRC recommends that the FASB reassess its definition of a lease and the notion of substitution of similar assets. The final standard needs to contain clear and sufficient guidance (for example, how substantive does the substitution clause have to be?) to minimize the risk of diversity in practice and manipulation.

Also concerning to the PCFRC is the fact that if certain arrangements, like the rail car example above, falls outside the scope of the lease standard, private company financial statement users may be unaware of significant liabilities if such arrangements are not accounted for as leases or included in disclosures about long-term commitments.

Respondent Question 5: Scope exclusions

This exposure draft proposes that a lessee or a lessor should apply the proposed guidance to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33-BC46).

Do you agree with the proposed scope of the proposed guidance? Why or why not? If not, what alternative scope would you propose and why?

PCFRC Response

The scope of the proposed ASU excludes intangible assets. The PCFRC notes that a company's major asset may be an intangible like a leased patent (as may be the case with a biotech company). If the right to use that patent is an asset, why should it be excluded? Similarly, the related liability would also be excluded. The PCFRC recommends that the FASB clarify the treatment of such intangible assets.

Respondent Question 6: Contracts that contain service components and lease components

This exposure draft proposes that lessees and lessors should apply the guidance in proposed Accounting Standards Update, *Revenue Recognition* (Topic 605): *Revenue from Contracts with Customers*, to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:

(a) The FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

(b) The IASB proposes that:

(i) A lessee should apply the lease accounting requirements to the combined contract.

(ii) a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

(iii) a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the guidance in the exposure draft on revenue from contracts with customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

PCFRC Response

As discussed in the PCFRC's response to question 4 above, the Committee struggles with the proposed ASU's guidance on differentiating a lease from a service contract. In situations that are not straightforward and a contract has both a lease component and a service component, the PCFRC is concerned that the guidance for distinguishing leases from service contracts may not be operational.

The PCFRC's response to question 4 above contains examples of arrangements for which the accounting appears uncertain to the PCFRC. Other examples include:

- Accounting for cloud computing whereby shared resources, software, and information are provided to computers and other devices on demand, like the electricity grid.
- Accounting for fractional aircraft ownership ("NetJets") in which a company purchases an interest in a specific aircraft. Since fractional aircraft ownership management agreements are typically written for five years, one is essentially acquiring a "bank" of hours to be utilized over that period.

Additional guidance is needed on determining the differences between service contracts and leases. FASB needs to ensure that the accounting is conceptually consistent.

In addition, the PCFRC recommends that for leases that include minor service components, such service components should be bundled with the lease for accounting and financial reporting purposes and not be separately identified and accounted for. Identifying and separating minor service components will add cost and complexity to

financial statement preparers without providing benefit to the users of those financial statements. This is especially true in situations where the service component is an obligatory, non-optional part of the lease, such as cleaning/maintenance service included with the lease of office space, or oil changes included with the lease of an automobile.

Bundling the service component with the lease will not only serve as a practical expediency in reducing the burden on financial statement preparers and practitioners, it will also serve to further the goal of presenting the complete lease liability in the financial statements. Since many of these service components are not optional, the lessee is obligated to pay for them. By bundling the service component with the lease, financial statement users would benefit from knowing the total amount a company is committed to pay on the lease in the future.

The PCFRC recognizes that from the lessor's accounting perspective, if the service component is not separated from the lease component, then the lessor would recognize all the service revenue at the initial recording of the transaction, which would not be a desirable accounting method in the FASB's viewpoint. Nevertheless, the separation of service components from lease components is an important issue and the PCFRC suggests that the FASB give the matter further consideration.

Respondent Question 7: Purchase options

This exposure draft proposes that a lease contract should be considered terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

PCFRC Response

The PCFRC agrees that a lessee or a lessor should account for purchase options only when they are exercised.

Respondent Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

PCFRC Response

The PCFRC believes the "more likely than not" criteria for determining the lease term is preferable to using a probability-weighted technique. Nevertheless, the Committee is concerned that determining the lease term for "at-will" and month-to-month type leases

will be challenging and burdensome for many private company financial statement preparers, especially those with multiple month-to-month type leases. Manipulation and structuring may occur when reliable information is lacking to help estimate a lease term.

Some PCFRC members favor using a “non-cancelable lease approach” to determine the lease term. Under that approach, the lease term is based on the non-cancelable lease term plus bargain renewal options subject to penalty for non-renewal. Other PCFRC members agree with the approach taken in the proposed ASU and believe that only using the contractual obligation to determine the lease term fails to take into account management’s intent and increases the risk of structuring.

Respondent Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

PCFRC Response

The PCFRC does not agree that contingent rentals and residual value guarantees should be included in the measurement of assets and liabilities. Committee members are of the opinion that the lessee’s obligation to pay contingent rentals does not exist until the future event requiring the payment occurs. Particularly when payment is linked to usage or performance of the lessee, the obligation to pay rentals should exclude the contingent element. The PCFRC supports the existing approach, which recognizes an obligation only when the contingency is resolved or the achievement of the target is considered probable (FASB ASC 840-10-25-35). Similarly, the PCFRC is of the opinion that amounts payable under residual value guarantees should only be recognized when payment under the guarantee is probable.

If contingent rentals and residual value guarantees are included in the measurement of assets and liabilities, then the PCFRC recommends that a “more likely than not” approach (as used to determine the lease term) be used instead when measuring the contingent rentals and residual value guarantees. The “more likely than not” approach will generally calculate a more reliable amount. In addition, the “more likely than not” approach is much simpler to apply and will be less complex and burdensome for financial statement preparers.

Respondent Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

PCFRC Response

The Committee agrees that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (if contingent payments are included in the measurement of assets and liabilities) since the previous reporting period. The PCFRC recommends that the FASB provide further guidance on when a change in the liability to make lease payments or in the right to receive lease payments is “*significant*”.

Respondent Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

PCFRC Response

The Committee agrees with the criteria for classification as a sale and leaseback transaction.

Respondent Question 12: Statement of financial position

(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totaling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this

information in the notes instead? What alternative presentation do you propose and why?

(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

PCFRC Response

The PCFRC recommends that additional clarification and guidance be included in the final standard related to the presentation and classification of assets that are partially leased. For example, if a lessor leases out a small percentage of a building, how is the building presented and classified on the lessor's balance sheet? Consideration should be given to presenting information about partially leased assets in the notes to the financial statements and not on the face of the balance sheet.

Furthermore, the PCFRC disagrees that all right-of-use assets should be classified in the property, plant and equipment category. Not all leased assets are PP&E (for example, inventory items are commonly leased; see the PCFRC's response to question 4 above.). Therefore, the PCFRC recommends that right-of-use assets should be classified similarly to the classification that would have resulted had the related asset been acquired and not leased.

Respondent Question 13: Income statement

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in the income statement (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

PCFRC Response

The PCFRC recommends that lessees and lessors be given the option of disclosing lease expense and income in the notes to the financial statements. Such flexibility will allow financial statement preparers to present lease expense and income in a manner that would be most useful to the users of their financial statements. EBITDA (earnings before interest, taxes, depreciation and amortization) is a key performance measure in the private company sector and the effect of lease-related payments on that measure is an important concern.

Respondent Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

PCFRC Response

The PCFRC disagrees with the classification of cash payments for leases entirely as financing activities. Such payments should be classified as operating activities.

Respondent Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

- (a) identifies and explains the amounts recognized in the financial statements arising from leases; and
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?
(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

PCFRC Response

Paragraphs 77 and 80 of the proposed ASU require lessees and lessors to disclose reconciliations of opening and closing balances related to leases. Private company financial statement users do not find such reconciliations useful or relevant to their decision making. As such the costs incurred by financial statement preparers and practitioners in providing such reconciliations will not be worthwhile given the lack of any significant benefit derived from such information. Therefore, the PCFRC recommends that private companies be exempted from the requirement to disclose these reconciliations.

Also paragraph 84 of the proposed ASU states: “An entity shall disclose information in accordance with the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*.” However paragraph 4i of that proposed ASU exempts financial assets and financial liabilities pertaining to leases. This appears to be contradictory guidance and the PCFRC recommends that the FASB provide clarification. Incidentally, the PCFRC recommends that ASUs should not refer to requirements or text in other standards, but should include the requirements or text in the ASU itself. Reading a standard that is self-contained and does not require the reader to skip to another standard is more useful and convenient.

Respondent Question 16

- (a) This exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?
- (b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

(c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

PCFRC Response

Full retrospective application of lease accounting requirements should be permitted. Users of private company financial statements stress the need for comparability of financial statements when performing their analyses.

Implementing the proposed ASU presents substantial transitional issues for private companies. Loan covenants and other agreements will need to be reviewed, renegotiated and redone. In the private company sector the most pervasive loan agreement covenant is debt to equity. A great deal of time will be required for lenders and borrowers to review and renegotiate this covenant. The impact on the financial statements of capitalizing lease-related assets and liabilities will need to be assessed. Also, time will be needed to identify every lease and build the systems to properly account for leases under the proposed ASU. Accordingly, the PCFRC recommends that the FASB provide a two year delay in the effective date of the final standard for private companies.

Respondent Question 17

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

PCFRC Response

The PCFRC believes the benefits of the proposals would mostly outweigh the costs, subject to the Committee's recommendation to exclude arrangements in which the most likely term, including renewal clauses, is twelve months or less and the other recommendations and comments contained herein.

Respondent Question 18

Do you have any other comments on the proposals?

PCFRC Response

Related-party Leases

Given the prevalence of related party leases in the private company sector, the PCFRC recommends that the final standard contain guidance addressing those leases. In many instances current accounting standards require private companies that lease real estate from a related party to consolidate the entities. Applying the proposed standard in these cases could result in a mismatch between lessee and lessor accounting. The resulting consolidated statements could be confusing.

The PCFRC's October 30, 2008 letter to the FASB concerning amendments to FASB Interpretation No. 46 (R), *Consolidation of Variable Interest Entities* (Accounting Standards Codification ("ASC") section 810) recommended that a private company that

meets the definition of related parties in paragraph 16 of FIN 46R (ASC 810-10-25-43) and is engaged in a leasing transaction that otherwise would be accounted for in accordance with the existing lease accounting requirements (FASB 13 or ASC section 840) should not be subject to FIN 46R (ASC section 810) but should instead follow the guidance in FASB 13, paragraph 29 (ASC section 840-10-50-1), with respect to accounting for leases with related parties.

Given that the proposed ASU will, among other things, require the capitalization of lease-related assets and liabilities, the PCFRC recommends that the FASB provide guidance on how the proposed leasing standard will interact with FIN 46R (ASC section 810) in regard to related party leases.

Incremental Borrowing Rate

In accordance with the proposed ASU, the discount rate used to determine the present value of lease payments for lessees is the lessee's incremental borrowing rate or the rate the lessor charges the lessee if that rate can be reliably determined. When leasing equipment, generally the purchase price of the asset is known. If the company does not have an incremental borrowing rate, the rate the lessor charges can be calculated.

As currently written, the guidance on determining the incremental borrowing rate may prove problematic in capitalizing real estate leases. In the private company sector, some companies have no debt except for loans to shareholders (which may or may not have a stated interest rate) or trade debt that may be financed by credit cards. The PCFRC recommends that the FASB add further guidance on this topic and that the proposed ASU be clarified as to whether both internal and external resources can be used to obtain the incremental borrowing rate.

Respondent Question 19

Should any of the proposed guidance be different for non-public entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?

PCFRC Response

Yes. Please refer to the PCFRC's answers to the previous questions for its recommendations and comments related to the applicability of the proposed ASU to private companies. Specific recommendations about areas that are more prevalent to private companies include:

- The PCFRC recommends that private companies be exempted from the requirements in paragraphs 77 and 80 of the proposed ASU to disclose reconciliations related to lease balances. See the response to question 15 above.
- The PCFRC recommends that the FASB provide a two year delay in the effective date of the final standard for private companies. See the response to question 16 above.
- The PCFRC recommends that the FASB issue further guidance and clarification on accounting for related party leases and reconsider the consolidation accounting requirements related to related-party leases. See the response to question 18 above.

- The PCFRC recommends that the FASB add further guidance about determining the incremental borrowing rate and clarification as to whether both internal and external resources can be used to obtain the incremental borrowing rate. See the response to question 18 above.

The PCFRC appreciates the FASB's consideration of these recommendations and comments. Please feel free to contact me if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Judith H. O'Dell". The signature is fluid and cursive, with the first name "Judith" being the most prominent part.

Judith H. O'Dell
Chair
Private Company Financial Reporting Committee