

Proposed Accounting Standards Update

Issued: November 30, 2022
Comments Due: January 16, 2023

Leases (Topic 842)

Common Control Arrangements

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 842 of the *FASB Accounting Standards Codification*[®]. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2022-ED500, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until January 16, 2023. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2022-ED500
- Sending a letter to “Technical Director, File Reference No. 2022-ED500, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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Proposed Accounting Standards Update

Leases (Topic 842)

Common Control Arrangements

November 30, 2022

Comment Deadline: January 16, 2023

CONTENTS

	Page Numbers
Summary and Questions for Respondents.....	1–6
Amendments to the <i>FASB Accounting Standards Codification</i> ®	7–16
Background Information, Basis for Conclusions, and Alternative Views.....	17–28
Amendments to the GAAP Taxonomy.....	29

Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

Since the issuance of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, the Board has prioritized monitoring and assisting stakeholders with the implementation of Topic 842 through its Post-Implementation Review (PIR) process. PIR activities include, but are not limited to, responding to technical accounting inquiries and proactively seeking feedback on issues arising from applying Topic 842. The amendments in this proposed Update are intended to respond to the concerns expressed by private company stakeholders about applying Topic 842 to related party arrangements between entities under common control.

Issue 1: Terms and Conditions to Be Considered

Topic 842 requires that entities determine whether a related party arrangement between entities under common control is a lease and, if so, to classify and account for the lease on the same basis as an arrangement with an unrelated party (that is, on the basis of legally enforceable terms and conditions). That represents a change from the *economic substance* requirements in Topic 840, *Leases*. Private company stakeholders observed that the Topic 842 requirements can be difficult to apply to common control arrangements. Specifically, private company stakeholders stated that determining the legally enforceable terms and conditions of those arrangements could, in their view, necessitate obtaining a formal legal opinion in certain cases, which could be challenging because of the common control nature of the arrangement (even for written arrangements).

Issue 2: Accounting for Leasehold Improvements

Topic 842 generally requires that leasehold improvements recognized by a lessee be amortized over the shorter of the remaining lease term and the useful life of the improvements, an approach that is generally consistent with legacy guidance. Lessees recognize leasehold improvements when they are the owner of those improvements. Private company stakeholders noted that amortizing leasehold improvements associated with leases between entities under common control (hereinafter referred to as common control leases) over a period shorter than the economic life of the improvements may result in financial reporting that does not faithfully represent the economics of those arrangements, particularly for leases with short lease terms. Those stakeholders further noted that this accounting fails to recognize the transfer of value between the entities under common control when

the lessee no longer controls the use of the underlying asset. Additionally, the Board believes that diversity in practice may exist for accounting for leasehold improvements associated with common control leases accounted for under Topic 842 for all entities.

Who Would Be Affected by the Amendments in This Proposed Update?

Issue 1: Terms and Conditions to Be Considered

The practical expedient in this proposed Update would be available to private companies and most not-for-profit entities. Specifically, the practical expedient would be available to entities that are not:

1. Public business entities
2. Not-for-profit conduit bond obligors
3. Employee benefit plans that file or furnish financial statements with or to the U.S. Securities and Exchange Commission (SEC).

Issue 2: Accounting for Leasehold Improvements

The amendments in this proposed Update would affect all lessees that are a party to a lease between entities under common control in which the lessee is the owner of leasehold improvements. The amendments would be applicable to all entities (that is, public business entities, private companies, and all not-for-profit entities).

What Are the Main Provisions?

Issue 1: Terms and Conditions to Be Considered

The amendments in this proposed Update would provide a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine:

1. Whether a lease exists and, if so,
2. The classification of and accounting for that lease.

The practical expedient may be applied on an arrangement-by-arrangement basis. If no written terms and conditions exist, an entity cannot apply the practical expedient and would continue to use the legally enforceable terms and conditions to apply Topic 842.

Issue 2: Accounting for Leasehold Improvements

The amendments in this proposed Update would require that leasehold improvements associated with leases between entities under common control be:

1. Amortized by the lessee over the economic life of the leasehold improvements (regardless of the lease term) as long as the lessee controls the use of the underlying asset (the leased asset) through a lease. However, if the lessor obtained the right to control the underlying asset through a lease with another entity not within the same common control group, the amortization period may not exceed the lease term associated with the lessor's lease with the other entity.
2. Accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities) if, and when, the lessee no longer controls the use of the underlying asset.

Additionally, those leasehold improvements would be subject to the impairment guidance in Topic 360, Property, Plant, and Equipment.

What Are the Transition Requirements?

Issue 1: Terms and Conditions to Be Considered

Entities that have not yet adopted Topic 842 on or before the effective date of a final Update would follow the transition requirements of Update 2016-02 (the original Update on leases) for the amendments in this proposed Update using the same transition method elected to apply Topic 842.

For entities that have adopted Topic 842 before the effective date of a final Update, an entity would be allowed to apply the amendments in this proposed Update either:

1. Prospectively to arrangements that commence or are modified on or after the date that the entity first applies the proposed amendments
2. Retrospectively to the beginning of the period in which the entity first applied Topic 842 for arrangements that exist at the date of adoption of a final Update. The proposed amendments would not be applicable for arrangements no longer in place at the date of adoption of a final Update.

Regardless of an entity's transition approach, the entity would 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 amendments in this proposed Update.

Issue 2: Accounting for Leasehold Improvements

Entities that have not yet adopted Topic 842 on or before the effective date of a final Update would follow the transition requirements of Update 2016-02 for the amendments in this proposed Update using the same transition method elected to apply Topic 842. However, an entity electing the retrospective transition method to the beginning of the period of adoption in applying Topic 842 may elect to apply the amendments in this proposed Update using either of the prospective approaches described below to avoid retrospectively accounting for leasehold improvements.

For entities that have adopted Topic 842 before the effective date of a final Update, an entity would be allowed to apply the amendments in this proposed Update using one of the following methods:

1. Prospectively to all new leasehold improvements recognized on or after the date that the entity first applies the proposed amendments
2. Prospectively to all new and existing leasehold improvements recognized on or after the date that the entity first applies the proposed amendments, with any remaining unamortized balance of existing leasehold improvements amortized over their remaining economic life determined at that date
3. Retrospectively to the beginning of the period in which the entity applied Topic 842 for leasehold improvements that exist at the date of adoption of a final Update, with any leasehold improvements that otherwise would not have been amortized recognized through a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the fiscal year of adoption.

When Would the Amendments Be Effective?

The Board will determine the effective date of the amendments in this proposed Update for both issues after considering stakeholders' feedback. However, the Board decided that the proposed amendments for both Issue 1 and Issue 2 would be effective for all entities during interim periods within the fiscal year of adoption of a final Update. If those entities have not yet applied Topic 842 in interim periods within the fiscal year of adoption of Topic 842, the amendments in a final Update would not be applicable during those interim periods.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

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?

Question 2: Would the proposed amendments reduce costs without reducing the decision-useful information for investors and other allocators of capital? Please explain why or why not.

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

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.

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?

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.

Question 7: Would the proposed amendments result in information that is more decision useful for investors and other allocators of capital? Please explain why or why not.

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

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

Effective Date

Question 10: How much time do private companies and not-for-profit entities that are not conduit bond obligors anticipate needing to adopt the proposed amendments for Issue 2?

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.

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.

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

Amendments to the *FASB Accounting Standards Codification*[®]

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification for applying Topic 842 to common control arrangements. The amendments are organized by issue.

Issue	Paragraphs
Issue 1: Terms and Conditions to Be Considered	3–6
Issue 2: Accounting for Leasehold Improvements	7–11

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–11. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Issue 1: Terms and Conditions to Be Considered

3. The following amendments would provide entities that are not public business entities, not-for-profit bond obligors, or employee benefit plans that file or furnish financial statements with or to the U.S. Securities and Exchange Commission with a practical expedient whereby an entity would use the written terms and conditions of a related party arrangement between entities under common control to determine:

- a. Whether a lease exists and, if so,
- b. The classification of and accounting for that lease.

An entity electing that practical expedient would be allowed to elect the practical expedient on an arrangement-by-arrangement basis.

Amendments to Subtopic 842-10

4. Add paragraphs 842-10-15-3A through 15-3C, with a link to transition paragraph 842-10-65-7, as follows:

Leases—Overall

Scope and Scope Exceptions

> Identifying a Lease

842-10-15-2 At inception of a **contract**, an entity shall determine whether that contract is or contains a **lease**.

842-10-15-3 A contract is or contains a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce).

842-10-15-3A As a practical expedient, an entity that is not a **public business entity**; a **not-for-profit entity** that has issued or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market; or an employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission shall use the written terms and conditions of a related party arrangement between entities under common control to determine whether that arrangement is or contains a lease. For purposes of determining whether a lease exists under this practical expedient, an entity shall determine whether written terms and conditions convey the practical (as opposed to legally enforceable) right to control the use of an identified asset for a period of time in exchange for consideration. If an entity determines that a lease exists, that entity shall classify and account for that lease on the basis of those written terms and conditions. An entity may elect the practical expedient on an arrangement-by-arrangement basis.

842-10-15-3B If no written terms or conditions exist, an entity shall not apply the practical expedient in paragraph 842-10-15-3A. Rather, that entity shall determine whether the related party arrangement between entities under common control is or contains a lease in accordance with paragraph 842-10-15-3 and, if so, classify and account for that lease on the basis of its legally enforceable terms and conditions in accordance with paragraph 842-10-55-12.

842-10-15-3C If, after an entity has applied the practical expedient in paragraph 842-10-15-3A, an arrangement is no longer between entities under common

control, the entity shall determine whether a lease exists in accordance with paragraph 842-10-15-3.

- a. If the arrangement was previously determined to be a lease and continues to be a lease, the entity shall account for any changes in the lease in accordance with the modification requirements in paragraphs 842-10-25-9 through 25-17. Changes in the lease may include changes that result from applying paragraph 842-10-15-3 or modifying the lease. If there are no changes in the lease, the modification requirements in those paragraphs are not applicable.
- b. If the arrangement was previously not determined to be a lease and is determined to be a lease, the entity shall account for the arrangement as a new lease.
- c. If the arrangement was previously determined to be a lease and the lease ceases to exist:
 1. A **lessee** shall apply the modification requirements for fully terminated leases in paragraph 842-20-40-1.
 2. A **lessor** with a lease previously classified as a **sales-type lease** or a **direct financing lease** shall apply the derecognition requirements for terminated leases in paragraph 842-30-40-2.
 3. A lessor with a lease previously classified as an **operating lease** shall derecognize any amounts that would not have existed if the arrangement was not accounted for as a lease and account for the arrangement in accordance with other generally accepted accounting principles (GAAP).

5. Amend paragraph 842-10-55-12, with a link to transition paragraph 842-10-65-7, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

. > Lease Classification

.. > Lease of a Related Party

842-10-55-12 Except for **leases** between entities under common control accounted for in accordance with the practical expedient in paragraph 842-10-15-3A, leases ~~Leases~~ between related parties should be classified in accordance with the lease classification criteria applicable to all other leases on the basis of the legally enforceable terms and conditions of the lease. Additionally, except for leases between entities under common control accounted for in accordance with paragraph 842-10-15-3A ~~in the separate financial statements of the related parties,~~ the classification and accounting for the leases should be the same as for leases

between unrelated parties in the separate financial statements of the related parties.

6. Amend paragraph 842-10-65-1 and its related heading and add paragraph 842-10-65-7 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Updates No. 2016-02, Leases (Topic 842), No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842, No. 2018-10, Codification Improvements to Topic 842, Leases, No. 2018-11, Leases (Topic 842): Targeted Improvements, No. 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors, No. 2019-01, Leases (Topic 842): Codification Improvements, No. 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), Leases (Topic 842): Effective Dates, No. 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, No. 2021-05, Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments, and No. 2021-09, Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities, and No. 202X-XX, Leases (Topic 842): Common Control Arrangements

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards Updates No. 2016-02, *Leases (Topic 842)*, No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, No. 2018-10, *Codification Improvements to Topic 842*, Leases, No. 2018-11, *Leases (Topic 842): Targeted Improvements*, No. 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*, No. 2019-01, *Leases (Topic 842): Codification Improvements*, No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, No. 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*, and No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, and No. 202X-XX, *Leases (Topic 842): Common Control Arrangements*: [Note: See paragraph 842-10-S65-1 for an SEC Staff Announcement on transition related to Update 2016-02.]

[The remainder of this paragraph is not shown here because it is unchanged.]

> Transition Related to Accounting Standards Update No. 202X-XX, Leases (Topic 842): Common Control Arrangements

842-10-65-7 The following represents the transition and effective date information for the practical expedient in Accounting Standards Update No. 202X-XX, *Leases (Topic 842): Common Control Arrangements*:

- a. An entity that has not yet adopted the pending content that links to paragraph 842-10-65-1 shall apply the pending content that links to this paragraph when it first applies the pending content that links to paragraph 842-10-65-1 using the same transition method elected for the pending content that links to paragraph 842-10-65-1.
- b. An entity that has adopted the pending content that links to paragraph 842-10-65-1 shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 202X [date to be inserted after exposure], and interim periods within those fiscal years. However, an entity shall not apply the pending content that links to this paragraph in interim periods until the first interim period in which the entity applies the pending content that links to paragraph 842-10-65-1.
- c. An entity that has adopted the pending content that links to paragraph 842-10-65-1 shall apply the pending content that links to this paragraph by using one of the following two methods:
 - 1. Prospectively to arrangements that commence or are modified on or after the date that the entity first applies the pending content that links to this paragraph.
 - 2. Retrospectively to the beginning of the period in which the pending content that links to paragraph 842-10-65-1 was first applied for arrangements that exist at the date of adoption of a final Update. That is, the pending content that links to this paragraph shall not be applicable for arrangements no longer in place at the date of adoption. Under this transition method:
 - i. If an arrangement previously considered to be a lease continues to be a lease after applying the pending content that links to this paragraph, an entity shall apply the requirements in paragraphs 842-10-25-9 through 25-17 to any changes in the lease resulting from application of the practical expedient in the pending content that links to this paragraph. Any amounts that otherwise would have been recognized in earnings shall be recognized as a cumulative-effect adjustment to opening retained earnings at the beginning of the earliest period presented in accordance with the pending content that links to paragraph 842-10-65-1.
 - ii. If an arrangement previously not considered a lease becomes a lease after applying the pending content that links to this paragraph, an entity shall account for the arrangement as a new lease.
- d. An entity may 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 pending content linked to this paragraph.

- e. An entity within the scope of (b) shall provide the applicable transition disclosures required by Topic 250 on accounting changes and error corrections, except for the requirements in paragraphs 250-10-50-1(b)(2) and 250-10-50-3. An entity that elects the transition method in (c)(2) shall provide the transition disclosures in paragraph 250-10-50-1(b)(3) as of the beginning of the earliest period presented but not before the date on which the pending content that links to paragraph 842-10-65-1 was adopted.

Issue 2: Accounting for Leasehold Improvements

7. The following amendments would require that all entities with leases between entities under common control account for the associated leasehold improvements by:

- a. Amortizing leasehold improvements over the economic life of the improvements (regardless of the lease term) as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the underlying asset through a lease with another entity not within the same common control group, the amortization period shall not exceed the lease term associated with the lessor's lease with the other entity.
- b. Accounting for any remaining leasehold improvements as a transfer between entities under common control through an adjustment to equity (net assets for not-for-profit entities) if, and when, the lessee no longer controls the use of the underlying asset.

Additionally, an entity with leasehold improvements associated with common control leases would be required to apply the impairment requirements in Topic 360, Property, Plant, and Equipment.

Amendments to Subtopic 842-10

8. Amend paragraph 842-10-30-6, with a link to transition paragraph 842-10-65-8, as follows:

Leases—Overall

Initial Measurement

> Initial Measurement of the Lease Payments

842-10-30-6 Lease payments do not include any of the following:

- a. Variable lease payments other than those in paragraph 842-10-30-5(b)
- b. Any guarantee by the lessee of the **lessor's** debt
- c. Amounts allocated to nonlease components in accordance with paragraphs 842-10-15-33 through ~~15-42~~ 15-42.
- d. Leasehold improvements recognized by a lessee and accounted for in accordance with paragraph 842-20-35-12A.

Amendments to Subtopic 842-20

9. Amend paragraph 842-20-35-12 and add paragraphs 842-20-35-12A through 35-12C, with a link to transition paragraph 842-10-65-8, as follows:

Leases—Lessee

Subsequent Measurement

> Amortization of Leasehold Improvements

842-20-35-12 Leasehold improvements, other than those accounted for in accordance with paragraph 842-10-35-12A, shall be amortized over the shorter of the **useful life** of those leasehold improvements and the remaining **lease term**, unless the **lease** transfers ownership of the **underlying asset** to the **lessee** or the lessee is reasonably certain to exercise an option to purchase the underlying asset, in which case the lessee shall amortize the leasehold improvements to the end of their useful life.

842-20-35-12A Leasehold improvements associated with a lease between entities under common control shall be:

- a. Amortized over the **economic life** of those improvements as long as the lessee controls the use of the underlying asset through a lease. If the **lessor** obtained the right to control the underlying asset through a lease with another entity not within the same common control group, the amortization period shall not exceed the lease term associated with the lessor's lease with the other entity.
- b. Accounted for as a transfer between entities under common control through an adjustment to equity (net assets for a **not-for-profit entity**) when the lessee no longer controls the use of the underlying asset.

842-20-35-12B An entity with leasehold improvements accounted for in accordance with paragraph 842-10-35-12A shall apply the impairment requirements in paragraph 360-10-40-4.

842-20-35-12C If after the commencement date the lessee and lessor become within the same common control group or are no longer within the same common control group, any change in the required amortization period for leasehold improvements shall be accounted for prospectively as a change in accounting estimate in accordance with paragraph 250-10-45-17.

10. Add paragraph 842-20-50-7A, with a link to transition paragraph 842-10-65-8, as follows:

Disclosure

842-20-50-7 A lessee shall disclose lease transactions between related parties in accordance with paragraphs 850-10-50-1 through 50-6.

842-20-50-7A When the economic life of leasehold improvements associated with a common control arrangement exceeds the related lease term, a lessee shall disclose the following information:

- a. The unamortized balance of the leasehold improvements at the balance sheet date
- b. The remaining economic life of the leasehold improvements
- c. The remaining lease term.

11. Add paragraph 842-10-65-8 and its related heading as follows:

Leases—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, Leases (Topic 842): Common Control Arrangements

842-10-65-8 The following represents the transition and effective date information related to the accounting for leasehold improvements associated with leases between entities under common control in Accounting Standards Update No. 202X-XX, Leases (Topic 842): Common Control Arrangements:

- a. An entity that has not yet adopted the pending content that links to paragraph 842-10-65-1 shall apply the pending content that links to this paragraph when it first applies the pending content that links to paragraph 842-10-65-1 and shall apply the same transition method elected for the pending content that links to paragraph 842-10-65-1. However, an entity that elects the transition method specified in paragraph 842-10-65-1(c)(2) may apply the pending content that links to this paragraph using either of the prospective methods specified in (c)(1) and (c)(2) below.
- b. An entity that has adopted the pending content that links to paragraph 842-10-65-1 shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 202X [date to be inserted after exposure], and interim periods within those fiscal years. However, an entity within the scope of paragraph 842-10-65-1(b) shall not apply the pending content that links to this paragraph in interim periods until the first interim period in which the entity applies the pending content that links to paragraph 842-10-65-1.
- c. An entity that has adopted the pending content that links to paragraph 842-10-65-1 shall apply the pending content that links to this paragraph by using one of the following methods:
 - 1. Prospectively to all new leasehold improvements recognized on or after the date that the entity first applies the pending content that links to this paragraph.
 - 2. Prospectively to all new and existing leasehold improvements recognized on or after the date that the entity first applies the pending content that links to this paragraph. An entity that elects this transition approach shall amortize the remaining balance of leasehold improvements existing at the date of adoption of the pending content that links to this paragraph over the remaining economic life of those improvements determined at that date.
 - 3. Retrospectively to the date on which the pending content that links to paragraph 842-10-65-1 was first applied. Any leasehold improvements previously amortized or impaired that otherwise would not have been amortized or impaired had the pending content that links to this paragraph been applicable shall be recognized through a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented in accordance with the pending content that links to paragraph 842-10-65-1.
- d. An entity within the scope of (b) shall provide the applicable transition disclosures required by Topic 250 on accounting changes and error corrections, except for the requirements in paragraphs 250-10-50-1(b)(2) and 250-10-50-3. An entity that elects the transition method in (c)(3) shall provide the transition disclosures in paragraph 250-10-50-1(b)(3) as of the beginning of the earliest period presented but not before the date on which the pending content that links to paragraph 842-10-65-1 was adopted.

The amendments in this proposed Update were approved for publication by four members of the Financial Accounting Standards Board. Ms. Botosan and Messrs. Buesser and Cannon voted against publication of the amendments. Their alternative views are set out at the end of the basis for conclusions.

Members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt

Background Information, Basis for Conclusions, and Alternative Views

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. On February 25, 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions.

BC3. As part of the Board's post-implementation review of Topic 842, the Board and staff continue to assist stakeholders by responding to technical accounting inquiries and proactively seeking feedback on potential implementation issues that have arisen as entities began implementing Topic 842. Since the issuance of Update 2016-02, the Board has issued seven Updates to assist stakeholders with implementation issues and two Updates deferring the effective date for private companies and certain not-for-profit organizations. The staff continues to perform outreach with stakeholders to determine whether the standard is accomplishing its stated objective and to evaluate the benefits to investors and other allocators of capital and continuing compliance costs related to Topic 842.

BC4. The amendments in this proposed Update address the following issues related to applying Topic 842 to related party arrangements between entities under common control (hereinafter referred to as common control arrangements) brought to the Board's attention primarily through interactions with private company stakeholders:

- a. The terms and conditions to be considered for:
 - i. Determining whether a lease exists and, if so,
 - ii. The classification of and accounting for that lease (Issue 1).
- b. Accounting for leasehold improvements (Issue 2).

Basis for Conclusions

Common Control

BC5. The amendments in this proposed Update address issues with applying Topic 842 to common control arrangements. The Board decided not to include other related party arrangements within the scope of the proposed amendments primarily because stakeholders' feedback indicated that issues with applying Topic 842 were most frequently associated with common control arrangements (see paragraphs BC10 and BC11 below). Additionally, that feedback indicated that common control arrangements in particular pose unique challenges.

BC6. Consistent with deliberations in previous projects addressing common control arrangements, the Board did not define *common control* in this proposed Update. The Board noted that *common control* exists in other areas of GAAP (for example, to determine the measurement basis for assets transferred between entities under common control under Topic 805, Business Combinations). For purposes of applying the amendments in this proposed Update, the Board believes that it would be appropriate for entities to consider, among other things, the SEC staff's observations¹ documented in EITF Issue No. 02-5, "Definition of 'Common Control' in Relation to FASB Statement No. 141," to determine *common control*.

BC7. Consistent with its observations in paragraph BC19 of Accounting Standards Update No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, the Board believes that the term *common control* should be broader for private companies and most not-for-profit entities than what the SEC staff observed in Issue 02-5. For example, an entity owned by a grandparent and an entity owned by a grandchild could, on the basis of facts and circumstances, be considered entities under common control for the purposes of applying the amendments in this proposed Update.

¹ . . . the SEC staff has indicated that common control exists between (or among) separate entities only in the following situations:

- a. An individual or enterprise holds more than 50 percent of the voting ownership interest of each entity.
- b. Immediate family members hold more than 50 percent of the voting ownership interest of each entity (with no evidence that those family members will vote their shares in any way other than in concert).
 - (1) Immediate family members include a married couple and their children, but not the married couple's grandchildren.
 - (2) Entities might be owned in varying combinations among living siblings and their children. Those situations would require careful consideration regarding the substance of the ownership and voting relationships.
- c. A group of shareholders holds more than 50 percent of the voting ownership interest of each entity, and contemporaneous written evidence of an agreement to vote a majority of the entities' shares in concert exists. [paragraph 3 of Issue 02-5]

Issue 1: Terms and Conditions to Be Considered

BC8. Topic 842 requires that entities determine whether a related party arrangement, including one between entities under common control, is a lease on the basis of the legally enforceable terms and conditions of the arrangement. That requirement is consistent with the requirements for an arrangement between unrelated parties. Under Topic 842, legal enforceability is fundamental to determining whether a lease exists because a lease is defined as a contract, or part of a contract. In the Master Glossary, a contract is defined as an agreement that creates enforceable rights and obligations. The classification and accounting for all leases—both leases between related parties and leases between unrelated parties—also is based on the legally enforceable terms and conditions.

BC9. The Topic 842 related party requirements represent a change from those in Topic 840, Leases. Under Topic 840, determining whether a lease exists (and, if so, the associated classification and accounting) was based on the economic substance of an arrangement rather than its legal form whenever the terms and conditions were significantly affected by the relationship of the parties.

BC10. Many private company stakeholders have stated that determining the legally enforceable terms and conditions in common control arrangements may present unique challenges, even when those terms and conditions are written. Moreover, those stakeholders noted that a common owner or owners typically can amend the terms and conditions of an arrangement at any time without approval by the lessee or lessor under common control. Likewise, a common owner or owners typically can choose not to enforce the terms and conditions of an arrangement without approval by the lessee or lessor. In other words, the arrangements are generally controlled entirely by one party or control group and, thus, pose unique issues when considering legal enforceability.

BC11. Private company stakeholders have consistently indicated that common control arrangements often are unwritten or lack sufficient detail (for example, the agreements may not explicitly specify whether lessee-controlled renewal options exist). Additionally, those stakeholders stated that the terms and conditions of the arrangements often are not negotiated at arm's length and not aligned with other related transactions or agreements. In those cases, private company stakeholders are concerned that determining the legally enforceable terms and conditions could, in their view, necessitate obtaining a formal legal opinion, which could be challenging because of the common control nature of the arrangement (even for written arrangements).

BC12. The Board acknowledged that the related party requirements in Topic 842 were intended to address stakeholders' concerns about the complexities and diversity in practice associated with applying the *economic substance* requirements in Topic 840. Notwithstanding, the Board concluded on the basis of feedback from stakeholders and additional analysis that determining whether terms and conditions of arrangements between entities under common control are

legally enforceable may be overly challenging when applying Topic 842, particularly in situations in which those terms and conditions are unwritten. Furthermore, the Board learned that in situations in which an entity identifies oral or implicit terms and conditions for purposes of applying Topic 842, practitioners often require that those terms and conditions be written to satisfy audit requirements.

BC13. The Board considered concerns that accounting for common control arrangements solely on the basis of written terms and conditions may not reflect the *economic substance* of the arrangement. The Board noted that Topic 842 did not retain the *economic substance* guidance in Topic 840 for related party arrangements primarily because that guidance was considered overly challenging and caused diversity in practice. The Board continues to believe that (a) determining whether a lease exists and, if so, (b) the classification for and accounting of that lease on the basis of *economic substance* (rather than documented terms) would not reflect the intended actions of the parties within the common control group (including payments made or received) and may not reflect the legally enforceable terms and conditions of the arrangement.

BC14. The Board noted that entities that have common control arrangements are subject to the disclosure requirements in Topic 850, Related Party Disclosures, which are intended to provide users of financial statements with sufficient information to analyze those arrangements. Those disclosure requirements were developed to address the fact that arrangements between related parties often are not consummated at arm's length and, therefore, may not reflect the economic substance of those arrangements.

BC15. To address stakeholders' concerns and reflect its recent considerations, the Board decided at its September 21, 2022 meeting to provide private companies and not-for-profit entities that are not conduit bond obligors with a practical expedient. That practical expedient would permit those entities to use the written terms and conditions of a common control arrangement to determine whether a lease exists. That practical expedient may be applied on an arrangement-by-arrangement basis. An entity that determines that a lease exists would classify and account for that lease under Topic 842 using the written terms.

BC16. The Board decided that when applying the practical expedient, an entity would not be required to determine whether written terms and conditions are legally enforceable. However, if no written terms and conditions exist, an entity would continue to use legally enforceable rights and obligations to apply Topic 842, consistent with the requirements of Topic 842 for arrangements between related parties *not* under common control. Additionally, the Board determined that, consistent with legacy requirements and practice, if an entity determines that an arrangement is not a lease, the entity should apply other applicable GAAP to account for both the arrangement and any improvements made by a customer to a supplier's asset.

BC17. The Board considered whether the practical expedient should be available for all entities but decided to limit the practical expedient to entities that are not (a) public business entities, (b) not-for-profit bond obligors, or (c) employee benefit plans that file or furnish financial statements with or to the SEC. The Board reasoned that the entities in (a) through (c) have fully adopted Topic 842 and have raised no significant concerns since the issuance of Update 2016-02 in February 2016 about applying related party requirements to common control arrangements. Moreover, the Board noted that recent feedback indicated that public business entities typically are applying Topic 842 to common control arrangements primarily on the basis of written terms, which were determined to be legally enforceable in accordance with paragraph 842-10-55-12. Therefore, the Board expects that applying the practical expedient will be consistent with practices employed by public business entities.

BC18. The amendments in this proposed Update represent a practical expedient. The *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, acknowledges two possibilities for recognition and measurement differences between private companies and public companies—an accounting alternative and a practical expedient. An accounting alternative is “a different method for recognizing or measuring a transaction or event,” whereas a practical expedient is “a more cost-effective way of achieving the same or a similar accounting or reporting objective.” If the information provided by existing GAAP is deemed relevant to the users of private company financial statements, then a practical expedient should be used to lower the cost and complexity of applying the guidance. If the information is not relevant or if it is relevant but costly and no practical expedient is available, only then should the Private Company Council and the Board consider an accounting alternative for recognition and measurement. Because the Board expects that applying Topic 842 to common control arrangements on the basis of written terms and conditions is consistent with public business entity practice, it concluded that a practical expedient (as opposed to an accounting alternative) was warranted.

BC19. The Board decided that the practical expedient may be applied on an arrangement-by-arrangement basis. Although the Board expects that entities will apply Topic 842 to common control arrangements on the basis of written terms and conditions, the Board reasoned that if entities wish to identify and account for legally enforceable oral and implicit terms for certain arrangements and not elect the practical expedient, they should be allowed to do so.

BC20. That practical expedient would allow private companies to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification and accounting for that lease. Notwithstanding, the Board acknowledged that 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.

Issue 2: Accounting for Leasehold Improvements

BC21. Leasehold improvements, although not defined in the Master Glossary, generally constitute improvements made by a lessee to the underlying asset (the leased asset) for which the lessee is determined to be the owner. In addition, those improvements are recognized as leasehold improvements on a lessee's balance sheet only when a lease exists (under either Topic 842 or Topic 840). Topic 842 generally requires that leasehold improvements be amortized over the shorter of the remaining lease term and the useful life of the improvements. That requirement is generally consistent with legacy guidance. Private company stakeholders have stated that it is not uncommon for private company common control leases to have a short lease term (for example, one year), even in situations in which the commonly controlled lessee makes significant leasehold improvements with an economic life that far exceeds the lease term. Those stakeholders raised concerns that fully amortizing leasehold improvements over a period shorter than the economic life of the improvements may result in financial reporting that does not faithfully represent the economics or the common control nature of those improvements because:

- a. The lessee will continue to control the use of the leased asset after the initial lease term either by extending the existing lease or entering into a new lease. Unlike transactions involving entities that are not under common control, the decision for that continued use is often controlled by a single party in the control group.
- b. The leasehold improvements will benefit another party within the common control group after the lessee ceases using the underlying asset (the leased asset).

BC22. Additionally, the Board is concerned that diversity in practice may exist for accounting for leasehold improvements associated with common control leases accounted for under Topic 842 and that the diversity may not be limited to private companies. The Board understands that multiple methods of accounting for those leasehold improvements may exist in practice for those situations including, but not limited to:

- a. Amortizing leasehold improvements in full over the shorter of the lease term and useful life of the leasehold improvements
- b. Amortizing leasehold improvements over the lease term to an estimated salvage value with the unamortized balance accounted for as a transfer between entities under common control at the end of the lease term
- c. Accounting for the improvements as a lease payment.

BC23. The Board believes that leasehold improvements associated with common control leases are economically different from those associated with leases between entities not under common control. The Board observed that leasehold improvements associated with common control leases generally are made at the direction of a common owner or owners. On the basis of the feedback noted in

paragraph BC21, the Board believes that in common control leases, those improvements are expected to benefit all of the common control parties through (a) the lessee's use of those improvements or (b) a transfer to the common control lessor or another entity within the common control group. The Board believes that this is not the case for leasehold improvements associated with leases between entities not under common control.

BC24. To address stakeholders' concerns, to reduce potential diversity in practice, and to require accounting that reflects the economics of leasehold improvements associated with a common control lease, the Board decided at its September 21, 2022 meeting to require that those leasehold improvements be:

- a. Amortized by the lessee over the economic life of the leasehold improvements (regardless of the lease term) as long as the lessee controls the use of the underlying asset through a lease. However, if the lessor obtained the right to control the underlying asset through a lease with another entity not within the same common control group, the amortization period should not exceed the lease term associated with the lessor's lease with the other entity.
- b. Accounted as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities) if, and when, the lessee no longer controls the right to use the underlying asset.

BC25. Additionally, the Board observed that an entity with leasehold improvements associated with common control leases should apply the impairment requirements in paragraph 360-10-40-4. That paragraph requires that a long-lived asset (asset group) be tested for recoverability while it is held and used using estimates of future undiscounted cash flows based on the asset's use for its remaining useful life, assuming that the transfer will not occur. Paragraph 360-10-40-4 also requires that an impairment be recognized when the asset is transferred if the carrying amount of the asset exceeds its fair value at the transfer date. The Board concluded that this impairment guidance is appropriate for leasehold improvements associated with leases between entities under common control that may be transferred to another party within the common control group. Moreover, the Board observed that applying this impairment guidance effectively prohibits a lessee under common control from transferring leasehold improvements that would be immediately impaired by the receiving entity.

BC26. The Board decided to require that leasehold improvements associated with common control leases be amortized over the *economic life* of those improvements. The Board concluded that using *economic life* as opposed to *useful life* is appropriate for leasehold improvements associated with common control leases because *economic life* is not limited to entity-specific (that is, lessee-specific) assumptions about how an entity intends to use an asset. The Board concluded that the period to be used for amortizing the leasehold improvements should be limited to the period in which the common control group can direct the use of the underlying asset. Therefore, if the lessor under common control obtains

the right to control the use of the underlying asset through a lease with another entity not within the same common control group, the amortization period would be limited to the lease term associated with that other lease.

BC27. The Board did not provide specific requirements for situations in which a lessee does not expect to transfer leasehold improvements associated with a common control lease to another entity within the common control group if, and when, the lessee no longer controls the use of the underlying asset. The Board believes that the lessee's determination of the economic life of leasehold improvements in those situations would include consideration of the basis for that expectation.

BC28. The Board expects that leasehold improvements associated with common control leases may benefit another related party within the common control group if, and when, the lessee no longer controls the use of the underlying asset. Therefore, the Board decided that any remaining improvements at that date should be accounted for as a transfer between entities under common control through equity (net assets for a not-for-profit entity). The Board believes that this accounting faithfully represents the economics of leasehold improvements associated with common control leases and is consistent with how entities currently account for transfers of other similar assets to entities within the same common control group. Additionally, that accounting also reflects that value is transferred to another entity within the common control group, which represents the economics of the transfer.

BC29. The Board acknowledged that for improvements made by a lessee to an underlying asset to be recognized as leasehold improvements, the lessee must be determined to be the owner of the asset or assets. The Board further acknowledged that no separate GAAP exists for making that determination. The Board decided not to develop requirements for determining the owner of improvements made to an underlying asset as part of the amendments in this proposed Update and notes that this determination is not unique to the application of Topic 842 or common control leases. That is, practice was making the ownership determination for leasehold improvements accounted for in accordance with Topic 840 for all leases. The Board observed that practice has developed methods for determining the owner of improvements made to an underlying asset, which have been consistently applied. The Board is aware that many factors are considered when determining the owner of improvements, including the expected period of use of those improvements by the lessee.

BC30. The Board decided to require lessees with leasehold improvements associated with common control leases in situations in which the economic life is longer than the lease term to make specific disclosures to assist users of financial statements in analyzing those situations.

Transition

Issue 1: Terms and Conditions to Be Considered

BC31. The Board decided that entities that have not yet adopted Topic 842 on or before the effective date of a final Update would follow the transition requirements of Update 2016-02 (the original Update on leases) for the amendments in this proposed Update using the same transition method elected to apply Topic 842.

BC32. The Board decided that for entities that have adopted Topic 842 before the effective date of a final Update, an entity would be allowed to apply the amendments in this proposed Update either:

- a. Prospectively to arrangements that commence or are modified on or after the date that the entity first applies the amendments in this proposed Update
- b. Retrospectively to the beginning of the period in which an entity first applied Topic 842 for arrangements that exist at the date of adoption of a final Update. The amendments in this proposed Update would not be applicable for arrangements no longer in place at the date of adoption of a final Update.

BC33. The Board decided to provide specific transition guidance for:

- a. Changes in terms and conditions resulting from applying the amendments in this proposed Update for arrangements that continue to be a lease
- b. Situations in which an arrangement previously not considered a lease becomes a lease as a result of applying the amendments in this proposed Update.

BC34. Regardless of an entity's transition approach, the Board also decided that an entity would 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 amendments in this proposed Update.

Issue 2: Accounting for Leasehold Improvements

BC35. The Board decided that entities that have not yet adopted Topic 842 on or before the effective date of a final Update would follow the transition requirements of Update 2016-02 for the amendments in this proposed Update using the same transition method elected to apply Topic 842. However, the Board decided to allow an entity electing the modified transition method for applying Topic 842 to apply the proposed amendments prospectively using either of the prospective

approaches described below to avoid retrospectively accounting for leasehold improvements.

BC36. The Board decided that entities that have adopted Topic 842 before the effective date of a final Update would be allowed to apply the amendments in this proposed Update using one of the following methods:

- a. Prospectively to all new leasehold improvements recognized on or after the date that an entity first applies the amendments in this proposed Update.
- b. Prospectively to all new and existing leasehold improvements recognized on or after the date that an entity first applies the amendments in this proposed Update. Entities that elect this transition approach would amortize the remaining balance of leasehold improvements existing at the date of application of a final Update over the remaining economic life of those improvements at that date.
- c. Retrospectively to the beginning of the period in which an entity first applied Topic 842 for leasehold improvements that exist at the date of adoption of a final Update, with any leasehold improvements that otherwise would not have been amortized or impaired recognized through a cumulative-effect adjustment to opening retained earnings at the beginning of the earliest period presented in accordance with the pending content that links to paragraph 842-10-65-1.

Effective Date

BC37. The Board will determine the effective date of the amendments in this proposed Update after considering stakeholders' feedback. However, the Board decided that the proposed amendments should be effective for all entities during interim periods within the fiscal year of adoption of a final Update. If those entities have not yet applied Topic 842 in interim periods, the amendments in a final Update would not be applicable during those interim periods.

Benefits and Costs

BC38. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is

no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC39. For Issue 1, the Board concluded that a practical expedient was appropriate for the reasons noted in paragraph BC18. The Board further concluded that the practical expedient in this proposed Update would significantly reduce the cost of implementation and ongoing application of Topic 842 for private companies and not-for-profit entities. Specifically, the Board noted that those entities electing the practical expedient in this proposed Update would not have to identify legally enforceable implicit terms and conditions, which has been communicated as a significant potential cost of implementing and applying Topic 842 to their common control arrangements. Additionally, the Board concluded that the practical expedient in this proposed Update would not compromise the decision usefulness of information provided to users of financial statements.

BC40. For Issue 2, the Board expects that the amendments in this proposed Update may reduce diversity in practice for accounting for leasehold improvements associated with leasehold improvements along with better reflecting the economics of those improvements. Therefore, the Board believes that the proposed amendments would improve the decision usefulness of information provided to users of financial statements.

Alternative Views

BC41. Ms. Botosan and Messrs. Buesser and Cannon support the relief afforded to private companies and certain not-for-profit entities by the proposed practical expedient to rely on the written terms and conditions of a common control arrangement without having to determine whether those terms and conditions are legally enforceable (that is, Issue 1). They believe that this simple clarification could mitigate the cost of having to obtain an unnecessary legal opinion and would serve to align practice more closely with the Board's original intent.

BC42. However, Ms. Botosan and Messrs. Buesser and Cannon do not support the proposal to exempt all entities' common control lease arrangements from the requirement in Topic 842 to amortize leasehold improvements over the shorter of the remaining lease term or the useful life of the improvements (that is, Issue 2). They object to this proposed amendment on conceptual and pragmatic grounds.

BC43. Ms. Botosan and Messrs. Buesser and Cannon believe that beyond the lease term a leasehold improvement does not meet the definition of an asset. FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting*, Chapter 4, *Elements of Financial Statements*, defines an asset as "a present right of an entity to an economic benefit." Beyond the lease term, no present right to the economic benefit from use of the underlying leased asset exists, and, correspondingly, no present right to the economic benefit from use of any associated leasehold improvements exists.

BC44. Ms. Botosan and Messrs. Buesser and Cannon believe that recognizing a leasehold improvement asset while failing to fully recognize the associated lease asset and obligation could yield misleading financial reporting information. They believe that this reporting would not provide a faithful representation of the underlying economic activity because generally it is uneconomic for an entity to fund leasehold improvements with a longer duration than the lease term. In addition, they are concerned that the favorable accounting treatment afforded to leasehold improvements by the proposed exemption could incentivize month-to-month common control lease arrangements, thereby compounding the potential harm.

BC45. Ms. Botosan and Messrs. Buesser and Cannon agree that amortization of a leasehold improvement for a shorter period than the economic life of the improvement is a poor reflection of the economics of those improvements (paragraph BC40). However, they disagree that a better reflection of the economics of those improvements would be to amortize the leasehold improvements for a longer period than the lease term. Rather, they note that entities could resolve the issue by documenting (in writing) terms and conditions that result in a lease term that is equal to or greater than the economic life of the leasehold improvements. At present, Topic 842 creates an incentive to do just that; therefore, Ms. Botosan and Messrs. Buesser and Cannon believe that there is no need for Issue 2 to be addressed.

BC46. Ms. Botosan and Messrs. Buesser and Cannon are concerned that the proposed exemption also would apply to public entities that adopted Topic 842 for fiscal years beginning after December 15, 2018. It is their understanding that the FASB has received no concerns about applying Topic 842 to common control lease arrangements from public entity preparers, practitioners, or financial statement users. Accordingly, they question the existence of a pervasive problem for those entities.

BC47. Furthermore, the staff's research on Issue 2 did not include input from public entities that would be affected by the proposed amendments or the users of those entities' financial statements. Accordingly, Ms. Botosan and Messrs. Buesser and Cannon concluded that they did not have sufficient input from stakeholders to make an informed decision on the issue or to make an informed assessment as to whether the expected benefits of the proposed amendments would justify the expected costs.

BC48. Topic 842 is in the final stage of implementation by entities required to adopt the standard for fiscal years beginning after December 15, 2021. Ms. Botosan and Messrs. Buesser and Cannon believe that addressing Issue 1 alone via an expedited 30-day comment period would deliver a timely response to the primary concern raised by those entities. In their opinion incorporating Issue 2 in the proposal is unnecessary, particularly at this late stage of implementation, and including public entities within the scope of Issue 2 risks delaying a timely response for those entities truly in need of swift action on Issue 1.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.