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July 15, 2021

Via email to director@fasb.org

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

Re: Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities (File Reference No. 2021-003)

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on the discount rate for lessees that are not public business entities in applying Topic 842, *Leases*, and support addressing application issues that arise under the new standard.

We agree with the Board's proposed changes to allow lessees that are not public business entities to apply a risk-free discount rate for the lease by class of underlying asset, rather than at the entity level. In our view, the proposed amendments would provide those lessees additional flexibility in determining whether and to which asset class to elect the accounting policy, and would be consistent with the level at which other practical expedients under Topic 842 are elected.

Our detailed responses and suggestions to the Questions for Respondents are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Thomas Faineteau at (214) 243-2924 or Angela Newell at (214) 689-5669.

Very truly yours,

A handwritten signature in dark ink that reads "BDO USA, LLP". The signature is written in a cursive, stylized font.

BDO USA, LLP

Appendix

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

We believe the amendments in this proposed update are operable because:

- the election to use a risk-free discount rate for the lease already exists for non-public business entity lessees under Topic 842 and the risk-free rate is considered readily available information, and
- amending the accounting policy to use the risk-free discount rate by asset class, rather than at the entity level, would be consistent with other practical expedients under Topic 842, including the practical expedient to not separate lease and related non-lease components.

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

In our view, the proposed amendments would provide lessees that are not public business entities with additional flexibility in determining whether to elect to use a risk-free discount rate for its leases. Whether the proposed amendments would reduce costs of implementing the guidance or applying it on an ongoing basis depends on whether the lessee would have elected the risk-free discount rate for all its leases absent the proposed amendments, and on the entity's specific facts and circumstances (for example, the number of asset classes and any processes developed to determine the incremental borrowing rate).

For entities that have already adopted Topic 842, there may be incremental costs to adopt the proposed amendments if these entities elect to change their initial accounting policy to apply the risk-free discount rate to certain asset classes only, and there may be incremental costs or cost savings on an ongoing basis depending on the entity's election under Topic 842 based on its specific facts and circumstances. However, we believe that any additional costs are justified by the additional flexibility provided, coupled with the fact that the proposal is an elective practical expedient, and therefore not required to be applied.

Question 3— Should an entity that is not a public business entity be allowed to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level? Why or why not?

We support allowing a non-public business entity to make the risk-free rate election by asset class, rather than at the entity level. This would provide these entities additional flexibility in complying with Topic 842 and in measuring their leases on balance sheet. For example, a lessee could focus more time and effort developing its incremental borrowing rate on leases within asset classes that are material to the financial statements, while utilizing the risk-free discount rate for leases in other asset classes.

In addition, applying an identical rate for the entire lease portfolio may result in disregarding the different economics inherent in the entity's various asset classes (and relative monetary volume of leases in those asset classes) and reducing the usefulness of information provided to users. For example, amounts reported for leases of office equipment with a relatively short term and lower lease payments (e.g., laptops, copiers, screen monitors) may not provide information to users as useful as longer term leases of property or core equipment that may significantly impact the financial statements. Providing the risk-free discount rate election by asset class would allow non-public

business entity lessees to consider such inherent differences when reporting information while retaining the benefit of an overall reduced cost of determining the discount rate for their leases.

Question 4— Should an entity making the risk-free rate election be required to disclose that fact and to which asset classes it has elected to apply a risk-free rate?

We agree that an entity making the risk-free rate election should be required to disclose that fact and the asset classes for which this election is being applied in the financial statements. This proposed disclosure requirement is consistent with the existing disclosure requirements for other practical expedients in Topic 842.

Question 5— Should an entity be required to disclose the weighted-average discount rate separately for leases for which a risk-free rate is used and all other leases (those that are measured using an incremental borrowing rate or the rate implicit in the lease)? For investors and other financial statement users, would a weighted-average discount rate that combines risk-free rates, incremental borrowing rates, and rates implicit in the lease into one measure provide decision-useful information? If separate disclosures were made, how would those weighted-average rates be used and for what purpose (be specific, including what calculations would be done and when that information would influence decisions)? Please explain your reasoning

Topic 842 requires a lessee to disclose the weighted-average discount rate separately for finance and operating leases. Because the current accounting policy about the use of a risk-free discount rate applies to all of an entity's leases, the information disclosed is derived using the same input or measure (i.e., the risk free discount rate). If the Board were to finalize the proposed amendments resulting from this project, we believe it would be preferable for an entity to disclose the weighted-average discount rate separately for leases for which a risk-free rate is used and all other leases. Providing a blended rate for all leases may not provide meaningful information to users if there are significant differences between the risk free rate and the entity's incremental borrowing rate. Segregating those weighted average discount rates would result in added transparency about the amounts reported in the entity's financial statements.

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

We defer to preparers of financial statements for this question.

Question 6— Considering the discussion in paragraph BC18 of this proposed Update, would replacing a risk-free rate in the election with another specified rate, such as a corporate bond rate, be operable? What effect would that replacement have on the cost of applying the amendments, if any?

We believe that replacing a risk-free rate with another specified rate, such as a corporate bond rate, would result in additional cost and complexity because corporate bond rates may not be readily available to all entities. In addition, it would likely require entities and their auditors to determine whether such rates are reliable and relevant for the entity's leases, which would impose incremental costs.

Question 7— Should the rate implicit in the lease be required when it is readily determinable (for example, in certain related-party leases) for lessees applying the risk-free rate election? Why or why not?

We agree with the proposed amendments that the rate implicit in the lease should be used if it is readily determinable even if a lessee is applying the risk-free rate election to the asset class to which the lease pertains. In our experience, the rate implicit in the lease is typically not readily determinable, except for a small subset of leases, and therefore should not result in significant compliance costs.

Question 8— Should an entity that has not yet adopted Topic 842 be required to adopt the proposed amendments at the same time it adopts Topic 842, using the existing transition provisions in paragraph 842-10-65-1? Why or why not?

We agree that an entity that has not yet adopted Topic 842 should be required to adopt the proposed amendments at the same time it adopts Topic 842, using the existing transition provisions in paragraph 842-10-65-1 as this would provide consistency when adopting the standard.

Question 9— For an entity that has adopted Topic 842 before the issuance of a final Update, should the proposed amendments be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with earlier application permitted? Why or why not?

Yes. We see no reason to delay adoption in this scenario since the final amendments will be optional.

Question 10— Should an entity that has adopted Topic 842 before the issuance of a final Update apply the proposed amendments on a modified retrospective basis through an adjustment to the lease liability and corresponding right-of-use asset for affected leases existing at the beginning of the year of adoption of a final Update? Why or why not?

We agree that an entity that has adopted Topic 842 before the issuance of a final Update would apply the proposed amendments on a modified retrospective basis through an adjustment to the lease liability and corresponding right-of-use asset for affected leases existing at the beginning of the year of adoption of the proposed amendments. In our view, this transition approach would provide an appropriate cost/benefit balance to preparers and users as compared to other transition methods.