January 11, 2023

Director@fasb.org
File Reference No. 2022-ED500
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re Proposed ASU: Leases (Topic 842) – Common Control Arrangements

Dear FASB:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs (TXCPA). The PSC has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below on the above-referenced exposure draft.

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?

Response: The PSC believes that the proposed ASU is operable and provides a reasonable practical expedient for private companies and not-for-profit entities that are not conduit bond obligors.

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.

Response: The PSC believes that the proposal will ultimately reduce audit and accounting costs because all lease terms will be in writing. However, the cost reduction is unlikely to be significant.

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

Response: The PSC believes that the proposed transition methods are appropriate and should not be difficult to implement. The PSC has no concerns with either the retroactive or prospective method. Changing from a currently used method may affect the comparability of the financial statements, but we do not think this would result in a material difference due to the required disclosures.

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.

Response: The PSC believes that documentation of any unwritten lease terms or conditions of an arrangement between entities before the issuance of interim or annual financial statements should be allowed.

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?

Response: The PSC believes that the proposed amendments are operable for all entities and should not pose auditability concerns.

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.

Response: The PSC believes that if all terms are documented and consistently applied, the proposed amendments should provide clarity and reduce diversity in the accounting for leasehold improvements in common control arrangements. However, the PSC is concerned that there may be insufficient guidance as to the definition of leasehold improvements or what to do in certain situations when the leasehold improvements would revert to the lessor of a common control arrangement when the lease is terminated. For example, there may be prohibitions concerning transfers or dividends in negative equity situations that would make the proposed accounting potentially unachievable.

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.

Response: The PSC has chosen not to answer questions regarding investors' opinions of the proposed amendments.

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

Response: The PSC agrees with the disclosure requirements in the proposed ASU. We believe that the proposed disclosures will improve transparency of the financial statements.

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

Response: The PSC believes that the proposed transition methods are appropriate and appear reasonable.

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?

Response: The PSC believes that a year from issuance date should provide adequate time for private companies and not-for-profit entities to record adjustments and rewrite any agreements that may be necessary. However, an additional year from issuance date might be beneficial depending on the planned implementation time of Issue 2 addressed in Question 11.

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.

Response: The PSC believes public companies should be able to implement the proposed amendments within a year of issuance of the ASU. Private companies and not-for-profits might need an additional year, with the allowance for early adoption.

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.

Response: If the proposed amendments for both Issue 1 and Issue 2 are made effective during interim periods during the year of adoption, the result will be a shorter implementation period. The PSC believes that if the requirements are to be applied for interim reporting, then a longer implementation period should be allowed.

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

Response: The PSC supports permitting early application of all proposed amendments. Early application would benefit certain companies entering into affected leases prior to the adopted effective date.

We appreciate the opportunity to submit comments on the proposed ASU on common control arrangements in leases.

Sincerely,

J. Ramsey Womack III, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants