



August 14, 2018

Accounting Group—Interpretations
Office of the Chief Accountant
U.S. Securities and Exchange Commission
Office of the Chief Accountant
100 F Street, N.E.; Mail Stop 6628
Washington, D.C. 20549-6628

Office of Chief Accountant
Division of Corporation Finance
U.S. Securities and Exchange Commission
Office of the Chief Accountant
100 F Street, N.E.; Mail Stop 4546
Washington, D.C. 20549-4546

Ladies and Gentlemen:

Re: Topic 842 *Leases* (ASC 842) – Application of ASC 842-10-65-1(l) to initially measure lease liabilities that include variable lease payments that depend on an index or rate

On July 21, 2018 a group of Financial Executives International (FEI) member companies raised interpretive questions to the staff of the Office of the Chief Accountant of the U.S. Securities and Exchange Commission (“OCA Staff”) related to the application of ASC 842-10-65-1(l) to initially measure lease liabilities that include variable lease payments that depend on an index or rate.

For new and modified leases entered into after the transition date, ASC 842, *Leases*, requires companies to include variable payments that depend on an index or rate in the measurement of the lease liability using the index or rate as of the commencement date (ASC 842-10-15-35). However, ASC 842’s transition guidance does not explicitly specify the index or rate to use upon transition (i.e., whether to use the index or rate at lease commencement date or at transition date), and instead states, subject to certain exceptions, that lessees should measure operating leases existing at transition based on remaining minimum rental payments pursuant to ASC 840. The FEI member companies requested the OCA Staff not object to the companies using the index or rate as of the transition date for purposes of initially measuring leases classified as operating leases under ASC 840 that commenced prior to the transition date.



On August 13, 2018 the OCA Staff communicated:

- (1) OCA staff understands that under ASC 840 (e.g., to meet the disclosure requirement in ASC 840-20-50-2(a)) some lessees measure future minimum rental payments that vary based on an index or a rate using current index or rate value, and other lessees measure those future minimum rental payments using the index or rate value from lease inception. OCA staff would not object to a registrant's use of its policy for measuring future minimum rental payments for ASC 840 disclosures to measure remaining minimum rental payments at transition to ASC 842 pursuant to ASC 842-10-65-1(l).
- (2) A registrant may change its policy for measuring future minimum rental payments under ASC 840, including at transition to ASC 842, if the policy change is in accordance with the requirements in ASC 250, *Accounting Changes and Error Corrections*. Additionally, in a registrant's application of ASC 250 to a change to measuring future minimum rental payments using current index or rate values, OCA staff believes that it would be reasonable to consider that the lease obligation that results from using current index or rate values represents a better measurement of the registrant's current lease obligations when evaluating whether that policy change is preferable. Registrant requirements related to accounting policy changes are identified in Rule 10-01(b)(6) of Regulation S-X.¹

FEI understands that this represents the views of the OCA Staff, and this information can be shared with others. FEI will post this letter to our website (www.financialexecutives.org) to help inform our members. We appreciate your prompt attention and support on this issue.

Sincerely,

Andrej Suskavcevic, CAE
President and CEO
Financial Executives International
Financial Executives Research Foundation

¹ See also, SAB Topic 6.G.2.b, *Reporting Requirements for Accounting Changes*, codified in ASC 250-10-S99-4.



Additional Signatories:

American Honda Motor Co., Inc.
Cummins
Dell Technologies
General Electric
Home Depot

McDonald's Corporation
TA Operating LLC, d.b.a.
TravelCenters of America
Walmart
The Walt Disney Company

cc:

Marsha L. Hunt, FASB Board Member
James Barker, Deloitte & Touche LLP, Partner, National Office – Accounting Consultation
Mark Mahar, Partner and Mark Barton, Partner, EY – National Professional Practice
Rahul Gupta, Grant Thornton, Partner – National Professional Standards
Scott Muir, KPMG, Partner – Department of Professional Practice
Marc Jerusalem, PWC, Director– National Quality Organization