July 16, 2021

Hillary H. Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2021-003

Dear Ms. Salo:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*.

We generally agree with the proposed amendments to Topic 842. The appendix contains our detailed responses to the Questions for Respondents as well as additional suggestions.

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If you have any questions regarding our comments, please contact Heather Horn (heather.horn@pwc.com) or Thomas Barbieri (thomas.barbieri@pwc.com).

Sincerely,

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Appendix

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

While we believe the amendments in the proposed Update are operable, this question may best be addressed by preparers.

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

Questions related to the cost of implementation may best be answered by preparers.

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 agree that an entity that is not a public business entity should be allowed to make the risk-free rate election by class of underlying asset rather than at the entity-wide level. We believe use of the incremental borrowing rate (IBR) to calculate the lease liability better reflects the underlying economics of lease arrangements, and we support its use when possible. The current entity-wide election requires use of the risk-free rate for all assets, even when it may not be necessary. Further, we believe lessees should use the rate implicit in the lease whenever it is readily determinable.

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?

Yes, we support that an entity making the risk-free rate election should be required to disclose that fact and to which asset classes it has elected to apply a risk-free rate.

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.

Yes, we support a requirement to disclose the weighted-average discount rate separately for (a) leases for which a risk-free rate is used and (b) all other leases that are measured using an IBR or the rate implicit in the lease. While this question may best be answered by financial statement users and analysts, we believe this requirement would provide better decision-useful information for financial statements users.

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.

While we do not believe the requirement to disclose the disaggregated weighted-average discount rates would add significant cost or complexity relative to the current requirement to disclose one weighted-average discount rate, this question may best be addressed by preparers.

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 appreciate that a risk-free rate does not correspond with the economics of a lease arrangement. Nevertheless, once the Board decided to offer certain entities an election to use an arbitrary rate to classify and measure a lease, we believe the risk-free rate is the preferred choice over other specified rates as it is readily observable and well understood by users of financial statements.

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?

Yes, we agree that the rate implicit in the lease should be required when it is readily determinable, as the rate implicit in the lease best reflects the underlying economics of the arrangement.

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 entities that have 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. Adopting Topic 842 concurrent with the proposed amendments would be less confusing to users of financial statements than adopting them on different dates.

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, for entities that have adopted Topic 842 before the issuance of a final Update, we agree that the proposed amendments should 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. We believe that a uniform adoption date for all reporting entities would enhance comparability.

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?

Yes, we generally agree that entities that have adopted Topic 842 before the issuance of a final Update should apply the proposed amendments on a modified retrospective basis for affected leases that existed at the beginning of the year of adoption.

Entities that previously adopted Topic 842 and applied the risk-free rate for all leases may not have evaluated whether the rate implicit in the lease was readily determinable. Alternatively, they may have known the rate implicit in the lease but still applied the risk-free rate to all leases.

We note that the proposed amendment requires entities to calculate the adjustment to the lease liability "based on the discount rate and remaining lease term at the beginning of the fiscal year of adoption." Where the adjustment required by this proposed amendment occurs at a date other than the commencement date, we do not believe that lessees would be able to "readily determine" the rate implicit in the lease. Accordingly, entities that previously adopted Topic 842, but did not use the rate implicit in the lease, would apply an alternate discount rate (i.e., the IBR or risk-free rate, as applicable) and remaining lease term at the beginning of the fiscal year of adoption. If this was the Board's intention, it may be helpful to clarify this in the Basis for Conclusions.