FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2018-10
July 2018

Codification Improvements to Topic 842, Leases

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board

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

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.

The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are of a similar nature to the items typically addressed in the Codification improvements project. However, the Board decided to issue a separate Update for the improvements related to Update 2016-02 to increase stakeholders' awareness of the amendments and to expedite the improvements.

The FASB did not create a transition resource group (TRG) to address the leases guidance because many of the concepts used in Topic 842 are similar to those currently used in Topic 840, Leases. Although a formal TRG was not created, the Board and staff have been assisting stakeholders during this transitional period by responding to inquiries received and proactively seeking feedback on potential implementation issues that could arise as organizations implement Topic 842. The amendments in this Update include items brought to the Board's attention through those interactions with stakeholders.

The amendments in this Update affect narrow aspects of the guidance issued in the amendments in Update 2016-02 as described in the table below. The amendments in this Update related to transition do not include amendments from proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements,* specific to a new and optional transition method to adopt the new lease requirements in Update 2016-02. That additional transition method will be issued as part of a forthcoming and separate Update that will result in additional amendments to transition paragraphs included in this Update to conform with the additional transition method.

Area for Improvement	Summary of Amendments
Issue 1: Residual Value Guarantees Stakeholders noted that paragraph 460-10-60-32 incorrectly refers readers to the guidance in Topic 842 about sale-leaseback-sublease transactions, when, in fact, it should refer readers to the guidance about guarantees by a seller-lessee of the underlying asset’s residual value in a sale and leaseback transaction.	 The amendment corrects the cross-reference in paragraph 460-10-60-32.
Issue 2: Rate Implicit in the Lease Stakeholders raised questions about the treatment of certain sales-type leases with significant variable payments under Topic 842 and whether the application of Topic 842 could result in a negative rate implicit in the lease, rather than a loss at the commencement date of the lease.	 The amendment clarifies that a rate implicit in the lease of zero should be used when applying the definition of the term *rate implicit in the lease* results in a rate that is less than zero.
Issue 3: Lessee Reassessment of Lease Classification Topic 842 is clear that when a lease is modified and that modification is not accounted for as a separate contract, an entity (that is, a lessee or a lessor) should reassess, at the effective date of the modification, lease classification on the basis of the modified terms and conditions and the facts and circumstances existing as of that date. Although Topic 842 also requires a lessee to reassess lease classification if there is a change in the lease term or the assessment of a lessee option to purchase the underlying asset, stakeholders expressed that it is not clear whether the lessee should reassess lease classification on the	 The amendment consolidates the requirements about lease classification reassessments into one paragraph and better articulates how an entity should perform the lease classification reassessment, that is, on the basis of the facts and circumstances, and the modified terms and conditions, if applicable, as of the date the reassessment is required.

Area for Improvement	Summary of Amendments
basis of the facts and circumstances existing as of the date the reassessment is required.	
Issue 4: Lessor Reassessment of Lease Term and Purchase Option Topic 842 requires a lessor to not reassess the lease term or a lessee purchase option unless the lease is modified and that modification is not accounted for as a separate contract. Topic 842 also requires a lessor to account for the exercise of a lessee option to extend or terminate the lease or to purchase the underlying asset in the same manner as a lease modification. Stakeholders questioned why a lessor should account for a lessee exercise of such options in a manner similar to a lease modification when the exercise of those options is consistent with the assumptions that the lessor made in accounting for the lease at the commencement date of the lease (or the most recent effective date of a modification that is not accounted for as a separate contract).	 The amendment clarifies that a lessor should account for the exercise by a lessee of an option to extend or terminate the lease or to purchase the underlying asset as a lease modification unless the exercise of that option by the lessee is consistent with the assumptions that the lessor made in accounting for the lease at the commencement date of the lease (or the most recent effective date of a modification that is not accounted for as a separate contract).
Issue 5: Variable Lease Payments That Depend on an Index or a Rate Stakeholders noted that the guidance in paragraph 842-10-35-4(b) about remeasurement of the lease payments when a contingency upon which some or all of the variable lease payments are based is resolved might be perceived as applying to any variable lease payments, including those that depend on an index or rate, which	 The amendment clarifies that a change in a reference index or rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency subject to the guidance in paragraph 842-10-35-4(b). Variable lease payments that depend on an index or a rate should be remeasured, using the index or rate

Area for Improvement	Summary of Amendments
would be inconsistent with the Board’s decisions on this issue.	at the remeasurement date, only when the lease payments are remeasured for another reason (that is, when one or more of the events described in paragraph 842-10-35-4(a) or (c) occur or when a contingency unrelated to a change in a reference index or rate under paragraph 842-10-35-4(b) is resolved).
Issue 6: Investment Tax Credits Stakeholders indicated that there is an inconsistency in terminology used about the effect that investment tax credits have on the fair value of the underlying asset between the definition of the term *rate implicit in the lease* and the lease classification guidance in paragraph 842-10-55-8.	 The amendment removes that inconsistency in terminology.
Issue 7: Lease Term and Purchase Option Stakeholders indicated that the description in paragraph 842-10-55-24 about lessor-only termination options is inconsistent with the description in paragraph 842-10-55-23 about the noncancellable period of a lease.	 The amendment removes that inconsistency by clarifying that the period covered by a lessor-only option to terminate the lease is included in the lease term.
Issue 8: Transition Guidance for Amounts Previously Recognized in Business Combinations Stakeholders indicated that the transition guidance for lessors in paragraph 842-10-65-1(h)(3) is unclear because it relates to leases classified as direct financing leases or sales-type leases under Topic 840, while the lead-in sentence to paragraph 842-10-65-1(h) provides	 The amendment clarifies that paragraph 842-10-65-1(h)(3) applies to lessors for leases classified as direct financing leases or sales-type leases under Topic 842, not Topic 840. In other words, paragraph 842-10-65-1(h)(3) applies when an entity does not elect the package of

Area for Improvement	Summary of Amendments
transition guidance for leases classified as operating leases under Topic 840.	practical expedients in paragraph 842-10-65-1(f), and, for a lessor, an operating lease acquired as part of a previous business combination is classified as a direct financing lease or a sales-type lease when applying the lease classification guidance in Topic 842. The amendment also cross-references to other transition guidance applicable to those changes in lease classification for lessors.
Issue 9: Certain Transition Adjustments When an entity initially applies Topic 842 retrospectively to each prior reporting period and does not elect the package of practical expedients in Topic 842, paragraph 842-10-65-1(p) requires a lessee to write off, as an adjustment to equity, any unamortized initial direct costs that do not meet the definition of *initial direct costs* under Topic 842 for leases previously classified as operating leases under Topic 840. Stakeholders questioned why those nonqualifying costs should be charged to equity when those costs are incurred after the beginning of the earliest period presented in the financial statements in which an entity adopts Topic 842. Similar issues also were noted elsewhere in the transition guidance when an entity initially applies Topic 842 retrospectively to each prior reporting period.	 The amendments clarify whether to recognize a transition adjustment to earnings rather than through equity when an entity initially applies Topic 842 retrospectively to each prior reporting period.

Area for Improvement	Summary of Amendments
Issue 10: Transition Guidance for Leases Previously Classified as Capital Leases under Topic 840	
Paragraph 842-10-65-1(r) provides guidance to lessees for leases previously classified as capital leases under Topic 840 and classified as finance leases under Topic 842. Paragraph 842-10-65-1(r)(4) provides subsequent measurement guidance before the effective date when an entity initially applies Topic 842 retrospectively to each prior reporting period, but it refers readers to the subsequent measurement guidance in Topic 840 about operating leases. It should refer them to the subsequent measurement guidance applicable to capital leases.	The amendment corrects that reference.
Issue 11: Transition Guidance for Modifications to Leases Previously Classified as Direct Financing or Sales-Type Leases under Topic 840	
Paragraph 842-10-65-1(x) provides transition guidance applicable to lessors for leases previously classified as direct financing leases or sales-type leases under Topic 840 and classified as direct financing leases or sales-type leases under Topic 842. For modifications to those leases beginning after the effective date, paragraph 842-10-65-1(x)(4) refers readers to other applicable guidance in Topic 842 to account for the modification, specifically paragraphs 842-10-25-16 through 25-17, depending on how the lease is classified after the modification. Stakeholders noted that it should refer to how the lease is classified	The amendment corrects that inconsistency.

Area for Improvement	Summary of Amendments
before the modification to be consistent with the guidance provided in paragraphs 842-10-25-16 through 25-17.	
Issue 12: Transition Guidance for Sale and Leaseback Transactions Stakeholders noted that the heading above the transition guidance on sale and leaseback transactions appears to suggest that there is no transition guidance for sale and leaseback transactions that occur after the earliest comparative period presented in the financial statements in which an entity adopts Topic 842 but before the effective date. Some stakeholders also questioned some of the references included in paragraph 842-10-65-1(bb).	 The amendments clarify that the transition guidance on sale and leaseback transactions in paragraph 842-10-65-1(aa) through (ee) applies to all sale and leaseback transactions that occur before the effective date and corrects the referencing issues noted.
Issue 13: Impairment of Net Investment in the Lease Paragraph 842-30-35-3 provides guidance to lessors for determining the loss allowance of the net investment in the lease and describes the cash flows that should be considered when the lessor determines that loss allowance. Stakeholders questioned whether the guidance, as written, would accelerate and improperly measure the loss allowance because the cash flows associated with the unguaranteed residual asset appear to be excluded from the evaluation.	 The amendment clarifies the application of the guidance for determining the loss allowance of the net investment in the lease, including the cash flows to consider in that assessment.

Area for Improvement	Summary of Amendments
Issue 14: Unguaranteed Residual Asset Paragraph 842-30-35-4 provides guidance explaining that if a lessor sells the lease receivable associated with a direct financing lease or a sales-type lease and retains an interest in the residual value of the asset, the lessor should not continue to accrete the unguaranteed residual asset to its estimated value over the remaining lease term. Stakeholders questioned whether the Board intended to change the application as compared with current generally accepted accounting principles (GAAP) because the guidance in paragraph 840-30-35-53 (which will be superseded by the amendments in Update 2016-02) requires a lessor to continue to recognize interest resulting from accretion of the unguaranteed residual asset to its estimated value unless the lessor sells *substantially all* of the minimum rental payments.	 The amendment clarifies that a lessor should not continue to accrete the unguaranteed residual asset to its estimated value over the remaining lease term to the extent that the lessor sells substantially all of the lease receivable associated with a direct financing lease or a sales-type lease, consistent with Topic 840.
Issue 15: Effect of Initial Direct Costs on Rate Implicit in the Lease Stakeholders noted that the ordering of the illustration in Case C of Example 1 in paragraphs 842-30-55-31 through 55-39 has raised questions about how initial direct costs factor into determining the rate implicit in the lease for lease classification purposes for lessors only.	 The amendment more clearly aligns the illustration to the guidance in paragraph 842-10-25-4.

Area for Improvement	Summary of Amendments
Issue 16: Failed Sale and Leaseback Transaction	
In accordance with Subtopic 842-40, Leases—Sale and Leaseback Transactions, when a sale and leaseback transaction does not qualify as a sale, an entity should account for the transaction as a financing arrangement. Paragraph 842-40-30-6(a) further requires a seller-lessee to adjust the interest rate as necessary to prevent negative amortization of the financial liability recognized. Some stakeholders questioned whether the language used in paragraph 842-40-30-6(a) actually meets the objective of preventing negative amortization of the financial liability recognized by a seller-lessee in a failed sale and leaseback transaction.	The amendment clarifies that a seller-lessee in a failed sale and leaseback transaction should adjust the interest rate on its financial liability as necessary to ensure that the interest on the financial liability does not exceed the total payments (rather than the principal payments) on the financial liability. This clarification is also reflected in the relevant illustration on failed sale and leaseback transactions that is contained in Subtopic 842-40.

When Will the Amendments Be Effective?

The amendments in this Update affect the amendments in Update 2016-02, which are not yet effective, but for which early adoption upon issuance is permitted. For entities that early adopted Topic 842, the amendments are effective upon issuance of this Update, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in Topic 842.

Amendments to the *FASB Accounting Standards Codification*®

Summary of Amendments to the Accounting Standards Codification

1. The following table summarizes the amendments to the Accounting Standards Codification. The amendments are organized by area.

Areas for Improvement	**Related Paragraphs**
Issue 1: Residual Value Guarantees	3 and 4
Issue 2: Rate Implicit in the Lease	5 and 6
Issue 3: Lessee Reassessment of Lease Classification	7 and 8
Issue 4: Lessor Reassessment of Lease Term and Purchase Option	9 and 10
Issue 5: Variable Lease Payments That Depend on an Index or a Rate	11 and 12
Issue 6: Investment Tax Credits	13 and 14
Issue 7: Lease Term and Purchase Option	15 and 16
Issue 8: Transition Guidance for Amounts Previously Recognized in Business Combinations	17 and 18
Issue 9: Certain Transition Adjustments	19 and 20
Issue 10: Transition Guidance for Leases Previously Classified as Capital Leases under Topic 840	21 and 22

Areas for Improvement	Related Paragraphs
Issue 11: Transition Guidance for Modifications to Leases Previously Classified as Direct Financing or Sales-Type Leases under Topic 840	23 and 24
Issue 12: Transition Guidance for Sale and Leaseback Transactions	25 and 26
Issue 13: Impairment of Net Investment in the Lease	27 and 28
Issue 14: Unguaranteed Residual Asset	29 and 30
Issue 15: Effect of Initial Direct Costs on Rate Implicit in the Lease	31 and 32
Issue 16: Failed Sale and Leaseback Transaction	33–35

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–40. 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~~. The amendments in this Update related to transition do not include amendments from proposed Accounting Standards Update, *Leases (Topic 842): Targeted Improvements,* specific to a new and optional transition method to adopt the new lease requirements in Update 2016-02. That additional transition method will be issued as part of a forthcoming and separate Update that will result in additional amendments to transition paragraphs included in this Update to conform with the additional transition method.

Issue 1: Residual Value Guarantees

3. This amendment provides a better link between the cross-reference in Section 460-10-60 and the implementation guidance in Topic 842 about residual value guarantees by a seller-lessee in a sale and leaseback transaction.

Amendments to Subtopic 460-10

4. Amend paragraph 460-10-60-32, with no additional link to transition, as follows:

Guarantees—Overall

Relationships

> Leases

460-10-60-32 For a guarantee by the seller-lessee of the underlying asset's residual value in a sale and leaseback transaction, see paragraphs 842-40-55-20 through 55-21 ~~paragraph 842-40-55-19~~.

Issue 2: Rate Implicit in the Lease

5. This amendment clarifies that the rate implicit in the lease, as defined and applied in Topic 842, cannot be less than zero.

Amendments to Master Glossary

6. Amend the Master Glossary term *Rate Implicit in the Lease*, with no additional link to transition, as follows:

Rate Implicit in the Lease

The rate of interest that, at a given date, causes the aggregate present value of (a) the **lease payments** and (b) the amount that a **lessor** expects to derive from the **underlying asset** following the end of the **lease term** to equal the sum of (1) the **fair value** of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) any deferred **initial direct costs** of the lessor. However, if the rate determined in accordance with the preceding sentence is less than zero, a rate implicit in the lease of zero shall be used.

Issue 3: Lessee Reassessment of Lease Classification

7. These amendments clarify certain aspects of the guidance about lease classification reassessments when, for a lessee, there is a change in the lease term or the assessment of a lessee purchase option of the underlying asset.

Amendments to Subtopic 842-10

8. Amend paragraphs 842-10-25-1 through 25-2 and 842-10-25-9, with no additional link to transition, as follows:

Leases—Overall

Recognition

> Lease Classification

842-10-25-1 An entity shall classify each separate **lease** component at the **commencement date**. An entity shall not reassess the lease classification after the commencement date unless the **contract** is modified and the modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8. In addition, a **lessee** also shall reassess the lease classification after the commencement date if there is a change in the **lease term** or the assessment of whether the lessee is reasonably certain to exercise an option to purchase the **underlying asset**. When an entity (that is, a lessee or lessor) is required to reassess lease classification, the entity shall reassess classification of the lease on the basis of the facts and circumstances (and the modified terms and conditions, if applicable) as of the date the reassessment is required (for example, on the basis of the **{add glossary link to 2nd definition}fair value{add glossary link to 2nd definition}** and the remaining **economic life** of the underlying asset as of the date there is a change in the lease term or in the assessment of a lessee option to purchase the underlying asset or as of the effective date of a modification not accounted for as a separate contract in accordance with paragraph 842-10-25-8).

842-10-25-2 A lessee shall classify a lease as a **finance lease** and a **lessor** shall classify a lease as a **sales-type lease** when the lease meets any of the following criteria at lease commencement:

a. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
b. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
c. The lease term is for the major part of the remaining **{remove glossary link}economic life{remove glossary link}** of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.
d. The present value of the sum of the **lease payments** and any residual value guaranteed by the lessee that is not already reflected in the lease payments in accordance with paragraph 842-10-30-5(f) equals or

exceeds substantially all of the **{remove glossary link}fair value{remove glossary link}** of the underlying asset.

e. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

> Lease Modifications

842-10-25-9 If a lease is modified and that modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8, the entity shall reassess the classification of the lease <u>in accordance with paragraph 842-10-25-1</u> as of the **effective date of the modification**~~ based on its modified terms and conditions and the facts and circumstances as of that date (for example, the **fair value** and remaining **economic life** of the **underlying asset** as of that date)~~.

Issue 4: Lessor Reassessment of Lease Term and Purchase Option

9. This amendment clarifies that the exercise by a lessee of an option to extend or terminate the lease or to purchase the underlying asset should be accounted for as a lease modification by a lessor unless the exercise of the option by the lessee is consistent with the assumptions that the lessor made in accounting for the lease at the commencement date of the lease (or at the most recent effective date of a modification not accounted for as a separate contract).

Amendments to Subtopic 842-10

10. Amend paragraph 842-10-35-3, with no additional link to transition, as follows:

Subsequent Measurement

> Lease Term and Purchase Options

842-10-35-3 A **lessor** shall not reassess the lease term or a lessee option to purchase the underlying asset unless the lease is modified and that modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8. When a lessee exercises an option to extend ~~or terminate~~ the lease or purchase the underlying asset <u>that the lessor previously determined the lessee was not reasonably certain to exercise or exercises an option to terminate the lease that the lessor previously determined the lessee was reasonably certain not to exercise</u>, the lessor shall account for the exercise of that option in the same manner as a **lease modification**.

Issue 5: Variable Lease Payments That Depend on an Index or a Rate

11. These amendments clarify that a change in a reference index or rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency subject to the guidance in paragraph 842-10-35-4(b) about remeasurement of the lease payments.

Amendments to Subtopic 842-10

12. Amend paragraphs 842-10-35-4 through 35-5, with no additional link to transition, as follows:

Subsequent Measurement

> Subsequent Measurement of the Lease Payments

842-10-35-4 A **lessee** shall remeasure the **lease payments** if any of the following occur:

a. The **lease** is modified, and that modification is not accounted for as a separate **contract** in accordance with paragraph 842-10-25-8.
b. A contingency upon which some or all of the **variable lease payments** that will be paid over the remainder of the **lease term** are based is resolved such that those payments now meet the definition of lease payments. For example, an event occurs that results in variable lease payments that were linked to the performance or use of the **underlying asset** becoming fixed payments for the remainder of the lease term. <u>However, a change in a reference index or a rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency subject to (b) (see paragraph 842-10-35-5 for guidance on the remeasurement of variable lease payments that depend on an index or a rate).</u>
c. There is a change in any of the following:
    1. The lease term, as described in paragraph 842-10-35-1. A lessee shall determine the revised lease payments on the basis of the revised lease term.
    2. The assessment of whether the lessee is reasonably certain to exercise or not to exercise an option to purchase the underlying asset, as described in paragraph 842-10-35-1. A lessee shall determine the revised lease payments to reflect the change in the assessment of the purchase option.

3. Amounts **probable** of being owed by the lessee under **residual value guarantees**. A lessee shall determine the revised lease payments to reflect the change in amounts probable of being owed by the lessee under residual value guarantees.

842-10-35-5 When one or more of the events described in paragraph 842-10-35-4(a) or (c) occur or when a contingency unrelated to a change in a reference index or rate under paragraph 842-10-35-4(b) is resolved ~~a lessee remeasures the lease payments in accordance with paragraph 842-10-35-4~~, variable lease payments that depend on an index or a rate shall be remeasured ~~measured~~ using the index or rate as of the date the remeasurement is required ~~at the remeasurement date~~.

Issue 6: Investment Tax Credits

13. This amendment clarifies the effect that investment tax credits have when determining lease classification and better aligns with how investment tax credits are considered when determining the rate implicit in the lease.

Amendments to Subtopic 842-10

14. Amend paragraph 842-10-55-8, with no additional link to transition, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Lease Classification

> > > Effect of Investment Tax Credits

842-10-55-8 When evaluating the **lease** classification criteria in paragraphs 842-10-25-2(d) and 842-10-25-3(b)(1), the **fair value** of the **underlying asset** should ~~exclude~~ be reduced by any related investment tax credit retained by the **lessor** and expected to be realized by the lessor.

Issue 7: Lease Term and Purchase Option

15. This amendment clarifies that a period covered by a lessor-controlled option to terminate a lease is included in the lease term.

Amendments to Subtopic 842-10

16. Amend paragraph 842-10-55-24, with no additional link to transition, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Lease Term and Purchase Options

842-10-55-23 An entity should determine the noncancellable period of a **lease** when determining the **lease term**. When assessing the length of the noncancellable period of a lease, an entity should apply the definition of a **contract** and determine the period for which the contract is enforceable. A lease is no longer enforceable when both the **lessee** and the **lessor** each have the right to terminate the lease without permission from the other party with no more than an insignificant **penalty**.

842-10-55-24 If only a lessee has the right to terminate a lease, that right is considered to be an option to terminate the lease available to the lessee that an entity considers when determining the lease term, as described in paragraph 842-10-30-1(b) ~~842-10-30-1~~. If only a lessor has the right to terminate a lease, ~~the noncancellable period of~~ the lease term includes the period covered by the option to terminate the lease, as described in paragraph 842-10-30-1(c).

Issue 8: Transition Guidance for Amounts Previously Recognized in Business Combinations

17. This amendment clarifies the intent of the transition guidance provided to lessors in paragraph 842-10-65-1(h)(3) for assets or liabilities recognized in accordance with Topic 805, Business Combinations, for favorable or unfavorable terms of an operating lease acquired as part of a business combination.

Amendments to Subtopic 842-10

18. Amend paragraph 842-10-65-1(h) and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842),* ~~*842)* and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842),* ~~*842*) and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*: [**Note:** See paragraph 842-10-S65-1 for an SEC Staff Announcement on transition related to Update 2016-02.]

Amounts previously recognized in respect of business combinations

h. If an entity has previously recognized an asset or a liability in accordance with Topic 805 on **business combinations** relating to favorable or unfavorable terms of an operating lease acquired as part of a business combination, the entity shall do all of the following:
   1. Derecognize that asset and liability (except for those arising from leases that are classified as operating leases in accordance with Topic 842 for which the entity is a lessor).
   2. Adjust the carrying amount of the right-of-use asset by a corresponding amount if the entity is a lessee.
   3. Make a corresponding adjustment to equity ~~at the beginning of the earliest comparative period presented~~ if assets or liabilities arise from leases that are classified as **sales-type leases** or **direct financing leases** in accordance with Topic 842 ~~840~~ for which the entity is a lessor. Also see (w).

Issue 9: Certain Transition Adjustments

19. These amendments clarify whether certain transition adjustments should be recognized to earnings rather than to equity.

Amendments to Subtopic 842-10

20. Amend paragraph 842-10-65-1(p), (r)(3), (s)(5), (v)(3), (w)(3), and (y)(3) and its relating heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842), ~~842)~~* ~~and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842), ~~842)~~* ~~and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*: [**Note**: See paragraph 842-10-S65-1 for an SEC Staff Announcement on transition related to Update 2016-02.]

Lessees

Leases previously classified as operating leases under Topic 840

p. Any unamortized initial direct costs ~~at the later of the beginning of the earliest period presented in the financial statements or the commencement date of the lease~~ that do not meet the definition of initial direct costs in this Topic shall be written off as an adjustment to equity (if incurred before ~~at the later of~~ the beginning of the earliest period presented in the financial statements) or to earnings of the comparative period presented (if incurred on or after the beginning of the earliest period presented), unless the lessee elects the practical expedients described in (f) ~~statements and the commencement date of the lease~~.

Leases previously classified as capital leases under Topic 840

r. For each lease classified as a finance lease in accordance with this Topic, a lessee shall do all of the following:
   3. Write off~~, as an adjustment to equity,~~ any unamortized initial direct costs that do not meet the definition of initial direct costs in this Topic and that are not included in the measurement of the capital lease asset under Topic 840 as an adjustment to equity (if incurred before ~~at the later of~~ the beginning of the earliest period presented in the financial ~~statements~~ statements) or ~~the commencement date of the lease that do not meet the definition of initial direct costs in this Topic and that are not included in the measurement of the capital lease asset under Topic 840 (unless~~ to earnings of the comparative period presented (if incurred on or after the beginning of the earliest period presented), unless the lessee elects the practical expedients described in (f) ~~(f))~~.

s. For each lease classified as an operating lease in accordance with this Topic, a lessee shall do the following:

5. Write off~~, as an adjustment to equity,~~ any unamortized initial direct costs that do not meet the definition of initial direct costs in this Topic as an adjustment to equity (if incurred before ~~at the later of~~ the beginning of the earliest period presented in the financial ~~statements~~ statements) or to earnings of the comparative period presented (if incurred on or after the beginning of the earliest period presented) ~~the commencement date of the lease that do not meet the definition of initial direct costs in this Topic~~.

Lessors

Leases previously classified as operating leases under Topic 840

v. For each lease classified as an operating lease in accordance with this Topic, a lessor shall do all of the following:
   3. Write off~~, as an adjustment to equity,~~ any unamortized initial direct costs that do not meet the definition of initial direct costs in this Topic as an adjustment to equity (if incurred before ~~at the later of~~ the beginning of the earliest period presented in the financial ~~statements~~ statements) or to earnings of the comparative period presented (if incurred on or after the beginning of the earliest period presented), ~~the commencement date of the lease that do not meet the definition of initial direct costs in this Topic (unless~~ unless the lessor elects the practical expedients described in (f) ~~(f))~~.

w. For each lease classified as a direct financing or a sales-type lease in accordance with this Topic, the objective is to account for the lease, beginning on the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease, as if it had always been accounted for as a direct financing lease or a sales-type lease in accordance with this Topic. Consequently, a lessor shall do all of the following:
   3. Record any difference between the amounts in (w)(1) and (w)(2) as an adjustment to equity (if the commencement date of the lease was before the beginning of the earliest period presented or if the lease was acquired as part of a business combination; also see (h)(3)) or earnings (if the commencement date of the lease was on or after the beginning of the earliest period presented).

Leases previously classified as direct financing or sales-type leases under Topic 840

y. For each lease classified as an operating lease in accordance with this Topic, the objective is to account for the lease, beginning on the later of the beginning of the earliest comparative period presented in the financial statements and the commencement date of the lease, as if it had always been accounted for as an operating lease in accordance with this Topic. Consequently, a lessor shall do all of the following:

3. Record any difference between the amounts in (y)(1) and (y)(2) as an adjustment to equity (if the commencement date of the lease was before the beginning of the earliest period presented or if the lease was acquired as part of a business combination) or earnings (if the commencement date of the lease was on or after the beginning of the earliest period presented).

Issue 10: Transition Guidance for Leases Previously Classified as Capital Leases under Topic 840

21. This amendment corrects a reference in the transition guidance about subsequent measurement of the lease before the effective date that is applicable to lessees for leases previously classified as capital leases under Topic 840 and classified as finance leases under Topic 842.

Amendments to Subtopic 842-10

22. Amend paragraph 842-10-65-1(r)(4) and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842),* ~~*842)* and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842),* ~~*842)* and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*: [**Note:** See paragraph 842-10-S65-1 for an SEC Staff Announcement on transition related to Update 2016-02.]

Leases previously classified as capital leases under Topic 840

r. For each lease classified as a finance lease in accordance with this Topic, a lessee shall do all of the following:
    4. Subsequently measure the right-of-use asset and the lease liability in accordance with Section 840-30-35 ~~840-20-35~~ before the effective date.

Issue 11: Transition Guidance for Modifications to Leases Previously Classified as Direct Financing or Sales-Type Leases under Topic 840

23. This amendment clarifies the transition guidance on modifications beginning on the effective date that are applicable to lessors for leases previously classified as direct financing leases or sales-type leases under Topic 840 and classified as direct financing leases or sales-type leases under Topic 842.

Amendments to Subtopic 842-10

24. Amend paragraph 842-10-65-1(x)(4) and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842),* ~~*842)* and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842),* ~~*842)* and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*: [**Note:** See paragraph 842-10-S65-1 for an SEC Staff Announcement on transition related to Update 2016-02.]

Leases previously classified as direct financing or sales-type leases under Topic 840

x. For each lease classified as a direct financing lease or a sales-type lease in accordance with this Topic, do all of the following:
   4. Beginning on the effective date, if a lessor modifies the lease (and the modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8), it shall account for the modified lease in accordance with paragraph 842-10-25-16 if the ~~modified~~ lease is classified as a direct financing lease ~~after~~ before the modification or paragraph 842-10-25-17 if the ~~modified~~ lease is classified as a sales-type lease ~~after~~ before the modification. A lessor shall not remeasure the net investment in the lease on or after the effective date unless the lease is modified (and the modification is

not accounted for as a separate contract in accordance with paragraph 842-10-25-8).

Issue 12: Transition Guidance for Sale and Leaseback Transactions

25. These amendments clarify that the transition guidance on sale and leaseback transactions in paragraph 842-10-65-1(aa) through (ee) applies to all sale and leaseback transactions that occur before the effective date. The amendments also update referencing issues.

Amendments to Subtopic 842-10

26. Amend the heading preceding paragraph 842-10-65-1(aa) and paragraph 842-10-65-1(bb) as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842), ~~842)~~* ~~and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*

842-10-65-1 The following represents the transition and effective date information related to Accounting Standards ~~Update~~ Updates No. 2016-02, *Leases (Topic 842), ~~842)~~* ~~and Accounting Standards Update~~ No. 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*, and No. 2018-10, *Codification Improvements to Topic 842, Leases*: [**Note:** See paragraph 842-10-S65-1 for an SEC Staff Announcement on transition related to Update 2016-02.]

Sale and leaseback transactions before the effective date ~~beginning of the earliest comparative period presented~~

aa. If a previous sale and leaseback transaction was accounted for as a sale and a leaseback in accordance with Topic 840, an entity shall not reassess the transaction to determine whether the transfer of the asset would have been a sale in accordance with paragraphs 842-40-25-1 through 25-3.

bb. If a previous sale and leaseback transaction was accounted for as a failed sale and leaseback transaction in accordance with Topic 840 and remains a failed sale at the effective date, the entity shall reassess whether a sale would have occurred at any point on or after the beginning of the earliest period presented in the financial statements in accordance with paragraphs 842-40-25-1 through 25-3. The sale and leaseback transaction shall be accounted for on a modified retrospective basis from the date a sale is determined to have occurred~~, in accordance with the requirements in (cc) through (dd)~~.

cc. An entity shall account for the leaseback in accordance with the lessee and lessor transition requirements in (k) through (y).

dd. If a previous sale and leaseback transaction was accounted for as a sale and capital leaseback in accordance with Topic 840, the transferor shall continue to recognize any deferred gain or loss that exists at the later of the beginning of the earliest comparative period presented in the financial statements or the date of the sale of the underlying asset as follows:

1. If the underlying asset is land only, straight line over the remaining lease term.
2. If the underlying asset is not land only and the leaseback is a finance lease, in proportion to the amortization of the right-of-use asset.
3. If the underlying asset is not land only and the leaseback is an operating lease, in proportion to the recognition in profit or loss of the total lease cost.

ee. If a previous sale and leaseback transaction was accounted for as a sale and operating leaseback in accordance with Topic 840, the transferor shall do the following:

1. Recognize any deferred gain or loss not resulting from off-market terms (that is, where the consideration for the sale of the asset is not at **fair value** or the lease payments are not at market rates) as a cumulative-effect adjustment at the later of the date of initial application (to equity) or the date of sale (to earnings of the comparative period presented).
2. Recognize any deferred loss resulting from the consideration for the sale of the asset not being at fair value or the lease payments not being at market rates as an adjustment to the leaseback right-of-use asset at the date of initial application.
3. Recognize any deferred gain resulting from the consideration for the sale of the asset not being at fair value or the lease payments not being at market rates as a financial liability at the date of initial application.

Issue 13: Impairment of Net Investment in the Lease

27. This amendment clarifies the application of the impairment guidance to lessors for net investment in leases, including the cash flows to consider in that impairment assessment.

Amendments to Subtopic 842-30

28. Amend paragraph 842-30-35-3, with no additional link to transition, as follows:

Leases—Lessors

Subsequent Measurement

> Sales-Type and Direct Financing Leases

> > Impairment of the Net Investment in the Lease

842-30-35-3 A **lessor** shall determine impairment related to the **net investment in the lease** and shall recognize any impairment in accordance with Topic 310 on receivables (as described in paragraphs 310-10-35-16 through 35-30). When determining the loss allowance for a net investment in the lease, a lessor shall take into consideration the collateral relating to the net investment in the lease. The collateral relating to the net investment in the lease represents the cash flows that the lessor would expect to receive (or derive) ~~derive~~ from the ~~**underlying asset**~~ **lease receivable** and the **unguaranteed residual asset** during and following the end of the remaining **lease term** ~~(for example, from sale of the asset or release of the asset for the remainder of the lease term), which excludes the cash flows that the lessor would expect to derive from the underlying asset following the end of the lease term (for example, cash flows from leasing the asset after the end of the lease term)~~.

In addition, amend the following pending content and its related heading for paragraph 842-30-35-3, with no additional link to transition, as follows:

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2020* **Transition Guidance:** 326-10-65-1

> > ~~Credit Losses~~ Loss Allowance on the Net Investment in the Lease

842-30-35-3 A **lessor** shall determine the loss allowance ~~credit losses~~ related to the **net investment in the lease** and shall record any loss allowance ~~credit losses~~ in accordance with Subtopic 326-20 on financial instruments measured at amortized cost. When determining the loss allowance for a net investment in the lease, a lessor shall take into consideration the collateral relating to the net investment in the lease. The collateral relating to the net investment in the lease represents the cash flows that the lessor would expect to receive (or derive) ~~derive~~

from the ~~**underlying asset**~~ **lease receivable** and the **unguaranteed residual asset** during and following the end of the remaining **lease term**~~, which excludes the cash flows that the lessor would expect to derive from the underlying asset following the end of the lease term (for example, cash flows from leasing the asset after the end of the lease term)~~.

Issue 14: Unguaranteed Residual Asset

29. This amendment clarifies that a lessor should not continue to accrete the unguaranteed residual asset to its estimated value over the remaining lease term to the extent that the lessor sells substantially all of the lease receivable associated with a direct financing lease or a sales-type lease.

Amendments to Subtopic 842-30

30. Amend paragraph 842-30-35-4, with no additional link to transition, as follows:

Subsequent Measurement

> Sales-Type and Direct Financing Leases

> > Sale of the Lease Receivable

842-30-35-4 If a **lessor** sells substantially all of the **lease receivable** associated with a **sales-type lease** or a **direct financing lease** and retains an interest in the **unguaranteed residual asset**, the lessor shall not continue to accrete the unguaranteed residual asset to its estimated value over the remaining **lease term**. The lessor shall report any remaining unguaranteed residual asset thereafter at its carrying amount at the date of the sale of the lease receivable and apply Topic 360 on property, plant, and equipment to determine whether the unguaranteed residual asset is impaired.

Issue 15: Effect of Initial Direct Costs on Rate Implicit in the Lease

31. These amendments clarify for lessors the effect that initial direct costs have on the determination of the rate implicit in the lease for lease classification purposes.

Amendments to Subtopic 842-30

32. Amend paragraphs 842-30-55-20 and 842-30-55-32, with no additional link to transition, and add paragraph 842-30-55-32A, with a link to transition paragraph 842-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Illustration of Lessor Accounting

842-30-55-18 Example 1 illustrates how a lessor would account for sales-type leases and direct financing leases.

> > > Example 1—Lessor Accounting Example

> > > > Case A—Lessor Accounting—Sales-Type Lease

842-30-55-19 Lessor enters into a 6-year lease of equipment with Lessee, receiving annual lease payments of $9,500, payable at the end of each year. Lessee provides a residual value guarantee of $13,000. Lessor concludes that it is probable it will collect the lease payments and any amount necessary to satisfy the residual value guarantee provided by Lessee. The equipment has a 9-year estimated remaining economic life, a carrying amount of $54,000, and a fair value of $62,000 at the commencement date. Lessor expects the residual value of the equipment to be $20,000 at the end of the 6-year lease term. The lease does not transfer ownership of the underlying asset to Lessee or contain an option for Lessee to purchase the underlying asset. Lessor incurs $2,000 in initial direct costs in connection with obtaining the lease, and no amounts are prepaid by Lessee to Lessor. The rate implicit in the lease is 5.4839 percent.

842-30-55-20 Lessor classifies the lease as a sales-type lease because the sum of the present value of the lease payments and the present value of the residual value guaranteed by the lessee amounts to substantially all of the fair value of the equipment. None of the other criteria to be classified as a sales-type lease are met. <u>In accordance with paragraph 842-10-25-4, the discount rate used to determine the present value of the lease payments and the present value of the residual value guaranteed by Lessee (5.4839 percent) for purposes of assessing whether the lease is a sales-type lease under the criterion in paragraph 842-10-25-2(d) assumes that no initial direct costs will be capitalized because the fair value of the equipment is different from its carrying amount.</u>

> > > > Case C—Lessor Accounting—Direct Financing Lease

842-30-55-31 Assume the same facts and circumstances as in Case A (paragraphs 842-30-55-19 through 55-24), except that the $13,000 residual value guarantee is provided by a third party, not by Lessee. Collectibility of the lease payments and any amount necessary to satisfy the third party residual value guarantee is probable.

842-30-55-32 None of the criteria in paragraph 842-10-25-2 to be classified as a sales-type lease are met. In accordance with paragraph 842-10-25-4, the discount rate used to determine the present value of the lease payments (5.4839 percent) for purposes of assessing whether the lease is a sales-type lease under the criterion in paragraph 842-10-25-2(d) assumes that no initial direct costs will be capitalized because the fair value of the equipment is different from its carrying amount. ~~Lessor classifies the lease as a direct financing lease because the sum of the present value of the lease payments and the present value of the residual value guaranteed by the third party amounts to substantially all of the fair value of the equipment. In accordance with paragraph 842-10-25-4, the discount rate used to determine the present value of the lease payments and the guaranteed residual value (5.4839 percent) assumes that no initial direct costs will be deferred because, at the commencement date, the fair value of the equipment is different from its carrying amount.~~ **[Content amended and moved to paragraph 842-30-55-32A]**

842-30-55-32A Rather, Lessor classifies the lease as a direct financing lease because the sum of the present value of the lease payments and the present value of the residual value guaranteed by the third party amounts to substantially all of the fair value of the equipment, and it is probable that Lessor will collect the lease payments plus any amount necessary to satisfy the third-party residual value guarantee. The discount rate used to determine the present value of the lease payments and the present value of the third-party residual value guarantee for purposes of assessing whether the lease meets the criterion in paragraph 842-10-25-3(b)(1) to be classified as a direct financing lease is the rate implicit in the lease of 4.646 percent, which includes the initial direct costs of $2,000 that Lessor incurred. ~~In accordance with paragraph 842-10-25-4, the discount rate used to determine the present value of the lease payments and the guaranteed residual value (5.4839 percent) assumes that no initial direct costs will be deferred because, at the commencement date, the fair value of the equipment is different from its carrying amount.~~ **[Content amended as shown and moved from paragraph 842-30-55-32]**

Issue 16: Failed Sale and Leaseback Transaction

33. This amendment clarifies that a seller-lessee in a failed sale and leaseback transaction should adjust the interest rate on its financial liability as necessary to ensure that the interest on the financial liability does not exceed the total payments (rather than the principal payments) on the financial liability.

Amendments to Subtopic 842-40

34. Amend paragraph 842-40-30-6, with no additional link to transition, as follows:

Leases—Sale and Leaseback Transactions

Initial Measurement

> Transfer of the Asset Is Not a Sale

842-40-30-6 The guidance in paragraph 842-40-25-5 notwithstanding, the seller-lessee shall adjust the interest rate on its financial liability as necessary to ensure that both of the following apply:

a. Interest on the financial liability is not greater than the ~~principal~~ payments on the financial liability over the shorter of the **lease term** and the term of the financing. The term of the financing may be shorter than the lease term because the transfer of an asset that does not qualify as a sale initially may qualify as a sale at a point in time before the end of the lease term.
b. The carrying amount of the asset does not exceed the carrying amount of the financial liability at the earlier of the end of the lease term or the date at which control of the asset will transfer to the buyer-lessor (for example, the date at which a repurchase option expires if that date is earlier than the end of the lease term).

35. Amend paragraph 842-40-55-33, with no additional link to transition, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Illustration of Sale and Leaseback Transaction

> > > Example 2—Accounting for a Failed Sale and Leaseback Transaction

842-40-55-33 Therefore, at the commencement date, Seller accounts for the proceeds of $2 million as a financial liability and continues to account for the asset. Buyer accounts for the payment of $2 million as a financial asset and does not recognize the transferred asset. Seller accounts for its financing obligation, and Buyer accounts for its financial asset in accordance with other Topics, except that, in accordance with paragraph 842-40-30-6, Seller imputes an interest rate (4.23

percent) to ensure that interest on the financial liability is not greater than the ~~principal~~ payments on the financial liability over the shorter of the lease term and the term of the financing and that the carrying amount of the asset will not exceed the financial liability at the point in time the repurchase option expires (that is, at the point in time Buyer will obtain control of the asset in accordance with the guidance on satisfying performance obligations in Topic 606). Paragraph 842-40-30-6 does not apply to the buyer-lessor; therefore, Buyer recognizes interest income on its financial asset on the basis of the imputed interest rate determined in accordance with paragraphs 835-30-25-12 through 25-13, which in this case Buyer determines to be 4 percent.

Amendments to Status Sections

36. Amend paragraph 460-10-00-1, by adding the following item to the table, as follows:

460-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
460-10-60-32	Amended	2018-10	07/18/2018

37. Amend paragraph 842-10-00-1, by adding the following items to the table, as follows:

842-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Rate Implicit in the Lease	Amended	2018-10	07/18/2018
842-10-25-1	Amended	2018-10	07/18/2018
842-10-25-2	Amended	2018-10	07/18/2018
842-10-25-9	Amended	2018-10	07/18/2018
842-10-35-3 through 35-5	Amended	2018-10	07/18/2018
842-10-55-8	Amended	2018-10	07/18/2018
842-10-55-24	Amended	2018-10	07/18/2018
842-10-65-1	Amended	2018-10	07/18/2018

38. Amend paragraph 842-20-00-1, by adding the following item to the table, as follows:

842-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Rate Implicit in the Lease	Amended	2018-10	07/18/2018

39. Amend paragraph 842-30-00-1, by adding the following items to the table, as follows:

842-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
Rate Implicit in the Lease	Amended	2018-10	07/18/2018
842-30-35-3	Amended	2018-10	07/18/2018
842-30-35-4	Amended	2018-10	07/18/2018
842-30-55-20	Amended	2018-10	07/18/2018
842-30-55-32	Amended	2018-10	07/18/2018
842-30-55-32A	Added	2018-10	07/18/2018

40. Amend paragraph 842-40-00-1, by adding the following items to the table, as follows:

842-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
842-40-30-6	Amended	2018-10	07/18/2018
842-40-55-33	Amended	2018-10	07/18/2018

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Marsha L. Hunt
Harold L. Monk, Jr.
R. Harold Schroeder
Marc A. Siegel

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this 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 Update 2016-02 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. The Board has an ongoing agenda project about improvements. The amendments in this Update are of a similar nature to the items typically addressed in that project. However, the Board decided to issue a separate Update for improvements related to Topic 842 and other Topics amended by Update 2016-02 to increase stakeholders' awareness of the amendments and to expedite improvements to the amendments in Update 2016-02.

BC4. The FASB did not create a TRG to address the leases guidance because many of the concepts used in Topic 842 are similar to those currently used in Topic 840. While a formal TRG was not created, the Board and staff have been assisting stakeholders by responding to inquiries received and proactively seeking feedback on potential implementation issues that could arise as organizations implement Topic 842.

BC5. In September 2017, the FASB issued two proposed Accounting Standards Updates, *Technical Corrections and Improvements to Recently Issued Standards: I. Accounting Standards Update No. 2016-01,* Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, and *II. Accounting Standards Update No. 2016-02,* Leases (Topic 842), as one document. In January 2018, the FASB decided to separate the amendments to Update 2016-01 from the proposed amendments to Update 2016-02 to expedite the improvements. The Board received eight comment letters on the proposed Update related to leases. In March 2018, the Board considered feedback received on the proposed Update related to leases and decided to proceed with the issuance of this final Update.

BC6. The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments affect narrow aspects of the amendments in Update 2016-02 and do not change any of the principles of those amendments. Therefore, the Board does not anticipate that entities will incur significant costs as a result of the amendments. The amendments should provide the benefit of improving consistent application of GAAP by clarifying guidance that already exists in Topic 842. The amendments do not create new accounting requirements.

Basis for Conclusions

Issue 1: Residual Value Guarantees

BC7. Paragraph 460-10-60-32 refers readers to the guidance in Topic 842 about sale-leaseback-sublease transactions when, in fact, it should refer readers to the guidance about guarantees by the seller-lessee of the underlying asset's residual value in a sale and leaseback transaction. The amendment in this Update corrects the cross-reference between Topic 460, Guarantees, and the relevant guidance in Subtopic 842-40 about a seller-lessee's guarantee of the underlying asset's residual value in a sale and leaseback transaction.

Issue 2: Rate Implicit in the Lease

BC8. Variable lease payments that do not depend on an index or a rate (such as those that are based on the performance of the underlying asset or usage of the underlying asset by the lessee) generally do not meet the definition of *lease payments.* For a direct financing lease or a sales-type lease, variable lease payments that do not depend on an index or a rate are not included in the net investment in the lease. Rather, a lessor recognizes those payments as income in profit or loss in the period in which the changes in facts and circumstances on which the variable lease payments are based occur. For a lease with significant variable lease payments that is classified as a direct financing lease or a sales-type lease, stakeholders questioned whether, for a lessor, applying Topic 842 should result in recognizing a "day-1 loss" at the commencement date of the lease or whether there are other approaches that could be acceptable. Specifically, some stakeholders noted that a literal application of the guidance, particularly the definition of the term *rate implicit in the lease,* could result in determining an implicit rate that is less than zero.

BC9. The Board observed that a day-1 loss is the intended accounting outcome and, accordingly, the use of a negative rate implicit in the lease is inappropriate. The Board noted that the decisions made about variable lease payments under Topic 842 that future variable lease payments would be too costly and complex to estimate and should be excluded, unless they depend on an index or a rate, were based on specific feedback received from stakeholders during the leases project.

Those decisions and feedback are summarized in paragraphs BC205–BC212 of Update 2016-02. Nonetheless, because this issue was raised multiple times by various stakeholders and could be significant in certain industries, the Board decided that it would be beneficial to make a technical correction in the guidance to clarify the Board's intent.

Issue 3: Lessee Reassessment of Lease Classification

BC10. Some stakeholders observed that when a lease is modified and that modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8, the guidance in paragraph 842-10-25-9 is clear that an entity should reassess, as of the effective date of the modification, lease classification on the basis of the modified terms and conditions and the facts and circumstances existing as of that date (for example, on the basis of the fair value and remaining economic life of the underlying asset as of the effective date of the modification). Although paragraph 842-10-25-1 also requires a lessee to reassess lease classification when there is a change in the lease term or the assessment of a lessee option to purchase the underlying asset in accordance with paragraph 842-10-35-1, those stakeholders noted that it is less clear whether the lessee also should reassess lease classification on the basis of the facts and circumstances existing as of the date the reassessment is required or, rather, whether the lessee could continue to, for example, use the fair value and remaining economic life of the underlying asset as determined at the commencement date of the lease (or the most recent modification not accounted for as a separate contract).

BC11. The Board intended for the guidance in paragraphs 842-10-25-1 and 842-10-25-9 to be applied in a similar manner. That is, an entity should reassess lease classification on the basis of the facts and circumstances (and the modified terms and conditions, if applicable) as of the date the reassessment is required (for lessees only) or as of the effective date of a modification not accounted for as a separate contract (for both lessees and lessors). The amendments in this Update clarify the guidance in paragraph 842-10-25-1 in that regard.

Issue 4: Lessor Reassessment of Lease Term and Purchase Option

BC12. Paragraph 842-10-35-3 requires that a lessor not reassess the lease term or a lessee option to purchase the underlying asset unless the lease is modified and that modification is not accounted for as a separate contract in accordance with paragraph 842-10-25-8. Paragraph 842-10-35-3 also requires that a lessor account for the exercise of a lessee option to extend or terminate the lease or to purchase the underlying asset in the same manner as a lease modification. However, some stakeholders indicated that it is unclear why a lessor should account for a lessee exercise of an option to extend or terminate the lease or to purchase the underlying asset in a manner similar to a lease modification when the exercise of that option is consistent with the assumptions that the lessor made in accounting for the lease at the commencement date of the lease (or the most recent effective date of a modification not accounted for as a separate contract).

BC13. The amendments in this Update clarify that a lessor should account for the exercise of a lessee option to extend or terminate the lease or to purchase the underlying asset as a lease modification unless the exercise of that option is consistent with the assumptions that the lessor made in accounting for the lease at the commencement date of the lease (or the most recent effective date of a modification not accounted for as a separate contract), in which case no change in accounting is required.

Issue 5: Variable Lease Payments That Depend on an Index or a Rate

BC14. In accordance with paragraph 842-10-35-4, a lessee is required to remeasure the lease payments when certain events occur—one (paragraph 842-10-35-4(b)) being the resolution of a contingency upon which some or all of the variable lease payments that will be paid over the remainder of the lease term are based is resolved such that those payments now meet the definition of *lease payments.* Paragraph 842-10-35-5 also notes that when a lessee remeasures the lease payments in accordance with paragraph 842-10-35-4, variable lease payments that depend on an index or a rate should be remeasured using the index or rate at the remeasurement date. Some stakeholders noted that the guidance in paragraph 842-10-35-4(b), as written, might be perceived as applying to any variable lease payments, including those that depend on an index or a rate. However, they noted that this is inconsistent with other areas of Topic 842, including Case A of Example 25 (paragraphs 842-10-55-226 through 55-231), which indicates that a lessee is not required to remeasure its lease liability using an updated index or rate unless the lease liability is remeasured for another reason. Those stakeholders also noted that Case A of Example 25 is consistent with the Board's intent discussed in paragraphs BC234–BC237 of Update 2016-02; that is, the Board concluded that the cost and complexity associated with a continual remeasurement of the lease payments for changes in an index or a rate did not justify the benefits.

BC15. Therefore, the amendments in this Update clarify that a change in a reference index or rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency subject to the guidance in paragraph 842-10-35-4(b).

Issue 6: Investment Tax Credits

BC16. Some stakeholders noted that there is an inconsistency in terminology on the effect that investment tax credits have on the fair value of the underlying asset between the definition of the term *rate implicit in the lease* and the lease classification guidance in paragraph 842-10-55-8. Specifically, the Master Glossary of the Codification defines the term *rate implicit in the lease* by referring to the "fair value of the underlying asset *minus* any related investment tax credit . . ." (emphasis added), while paragraph 842-10-55-8 states that "the fair value of the underlying asset should *exclude* any related investment tax credit . . ." (emphasis added). Those stakeholders noted that the differences in terminology could result in differences in application between the determination of the rate implicit in the lease and lease classification, which did not exist under Topic 840.

BC17. The Board did not intend to change practice in that regard. To avoid confusion, the Board decided that it is beneficial to align the terminology used in the definition of the term *rate implicit in the lease* in the Master Glossary and the guidance in paragraph 842-10-55-8 on lease classification.

Issue 7: Lease Term and Purchase Option

BC18. Stakeholders observed that paragraph 842-10-55-24, which indicates that the period covered by an option controlled by the lessor to terminate a lease is included as part of the noncancellable period of a lease, is inconsistent with the description in paragraph 842-10-55-23 about how the noncancellable period of a lease is described. Paragraph 842-10-55-23 explains that when assessing the noncancellable period of a lease, an entity should determine the period for which a contract is enforceable. It goes on to explain that "a lease is no longer enforceable when both the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty."

BC19. The amendment in this Update corrects the inconsistency noted in paragraph 842-10-55-24. The amendment should not result in any change to the determination of the lease term because, in accordance with paragraph 842-10-30-1(c), periods covered by an option to extend (or, in this case, not to terminate) the lease in which exercise of the option is controlled by the lessor are automatically included in the determination of the lease term.

Issue 8: Transition Guidance for Amounts Previously Recognized in Business Combinations

BC20. Paragraph 842-10-65-1(h) provides transition guidance for an entity that previously recognized an asset or a liability relating to favorable or unfavorable terms of an operating lease acquired as part of a business combination in accordance with Topic 805. Paragraph 842-10-65-1(h)(1) through (2) provides transition guidance for lessees, while paragraph 842-10-65-1(h)(3) provides transition guidance for lessors. Several stakeholders noted that the transition guidance provided to lessors in paragraph 842-10-65-1(h)(3) is unclear because that guidance applies to leases classified as direct financing leases or sales-type leases under Topic 840, while the lead-in sentence of paragraph 842-10-65-1(h) refers to leases classified as operating leases also under Topic 840.

BC21. The language in paragraph 842-10-65-1(h)(3) is a carryforward from the 2013 proposed Accounting Standards Update, *Leases (Topic 842)*. That paragraph, as drafted in the 2013 proposed Update, related to situations in which a lease classified as an operating lease by a lessor under Topic 840 becomes classified as a Type A lease under the amendments in the 2013 proposed Update. While the amendments on lease classification in the 2013 proposed Update were different from the final guidance as issued in Topic 842, they indicate that paragraph 842-10-65-1(h)(3) was intended to provide transition guidance for changes in lease classification from operating leases under Topic 840 to Type A leases under the 2013 proposed guidance. Therefore, the Board decided that the reference to leases classified as direct financing leases or sales-type leases in paragraph 842-10-65-1(h)(3) should be made in relation to lease classification as determined under Topic 842, not Topic 840. The Board also notes that paragraph 842-10-65-1(h)(3) applies when an entity does not elect the package of practical expedients in paragraph 842-10-65-1(f) and, for a lessor, when an operating lease acquired as part of a previous business combination is classified as a direct financing lease or a sales-type lease under Topic 842.

BC22. Some respondents to the proposed Update on technical corrections and improvements requested that the Board clarify its intent about the proposed amendments in paragraph 842-10-65-1(h)(3) and the interaction of that paragraph with other proposed amendments in paragraph 842-10-65-1(w). Specifically, those respondents questioned why the transition adjustments made by a lessor—for favorable or unfavorable terms recognized for an operating lease acquired as part of a business combination that becomes classified as a sales-type lease or direct financing lease under Topic 842—are made to equity regardless of the date of the transaction. Those respondents noted that for other proposed amendments, the Board differentiates between adjustments that should be recorded in earnings of the comparative periods and adjustments that should be recorded in equity (see Issue 9). Therefore, the Board decided to clarify that when a lessor applies paragraph 842-10-65-1(h)(3) and paragraph 842-10-65-1(w) for an operating lease acquired as part of a business combination that becomes a sales-type lease or direct financing lease under Topic 842, the adjustments by applying these paragraphs, as of the business combination date, would effectively offset. For example, the effect of derecognizing an asset subject to an operating lease and any related intangible would be offset by the initial recognition of the net investment in the lease for the sales-type or direct financing lease.

Issue 9: Certain Transition Adjustments

BC23. Initial direct costs are defined in Topic 842 as incremental costs of a lease that would not have been incurred had the lease not been obtained. Paragraph 842-10-30-9 provides examples of initial direct costs, which include commissions and payments to an existing tenant to incentivize that tenant to terminate its lease. Costs that meet the definition of *initial direct costs* in Topic 842 are capitalized and included, for a lessee, in the initial measurement of the right-of-use asset for both finance leases and operating leases. The definition of the term *initial direct costs* under Topic 842 is narrower than the previous definition under Topic 840.

BC24. When an entity initially applies Topic 842 retrospectively to each prior reporting period and does not elect the package of practical expedients provided in paragraph 842-10-65-1(f), the transition guidance provided in paragraph 842-10-65-1(p) for leases previously classified as operating leases under Topic 840 requires a lessee to write off any unamortized initial direct costs that do not meet the definition of initial direct costs under Topic 842 as an adjustment to equity at the later of the beginning of the earliest period presented in the financial statements and the commencement date of the lease. Stakeholders questioned why a lessee would write off those nonqualifying costs to equity when those costs are incurred after the beginning of the earliest period presented, noting that those costs instead should be recognized in the earnings of the period in which they are incurred. Those stakeholders noted similar inconsistencies elsewhere in the transition guidance.

BC25. The amendments in this Update clarify whether to record a transition adjustment to equity or to the earnings of the comparative period presented when an entity initially applies Topic 842 retrospectively to each prior reporting period. For example, for a lease previously classified as an operating lease under Topic 840, a lessee that does not elect the package of practical expedients in paragraph 842-10-65-1(f) should write off the initial direct costs that do not meet the definition of initial direct costs under Topic 842 as a transition adjustment to equity (if incurred before the beginning of the earliest period presented) or to earnings of the comparative period presented (if incurred on or after the beginning of the earliest period presented). Similarly, a lessor with an existing operating lease that is reclassified as a sales-type or direct financing lease under Topic 842 should recognize the selling profit or loss on that lease as an adjustment to equity only if the commencement date of the lease was before the beginning of the earliest period presented.

Issue 10: Transition Guidance for Leases Previously Classified as Capital Leases under Topic 840

BC26. Paragraph 842-10-65-1(r) provides transition guidance applicable to lessees for leases previously classified as capital leases under Topic 840 and those classified as finance leases under Topic 842 (whether because the entity elects the package of practical expedients in paragraph 842-10-65-1(f) or because the entity does not elect the package of practical expedients but lease classification does not change). Regarding subsequent measurement guidance of the right-of-use asset and lease liability before the effective date when an entity initially applies Topic 842 retrospectively to each prior reporting period, paragraph 842-10-65-1(r)(4) refers readers to the subsequent measurement guidance of operating leases in Topic 840 when it should refer them to the subsequent measurement guidance on capital leases. The amendment in this Update corrects that reference.

Issue 11: Transition Guidance for Modifications to Leases Previously Classified as Direct Financing or Sales-Type Leases under Topic 840

BC27. Paragraph 842-10-65-1(x) provides transition guidance applicable to lessors for leases previously classified as direct financing leases or sales-type leases under Topic 840 and classified as direct financing leases or sales-type leases under Topic 842. Regarding the guidance on modifications on or after the effective date, paragraph 842-10-65-1(x)(4) provides references to other applicable guidance in Topic 842 (specifically, paragraphs 842-10-25-16 through 25-17) that a lessor should apply to account for the lease modification depending on how the lease is classified after the modification. Stakeholders noted that the guidance should refer to how the lease is classified *before* the modification to be consistent with the guidance provided in paragraphs 842-10-25-16 through 25-17. The amendment in this Update clarifies paragraph 842-10-65-1(x)(4) in that regard.

Issue 12: Transition Guidance for Sale and Leaseback Transactions

BC28. This issue encompasses two separate amendments to the transition guidance provided for sale and leaseback transactions in paragraph 842-10-65-1(aa) through (ee).

BC29. Some stakeholders noted that the heading above the transition guidance on sale and leaseback transactions appears to suggest that there is no transition guidance for sale and leaseback transactions that occur after the beginning of the earliest comparative period presented of the financial statements in which an entity adopts Topic 842 but before the effective date. The amendment in this Update revises the heading such that the transition guidance in paragraph 842-10-65-1(aa) through (ee) applies to all sale and leaseback transactions entered into before the effective date of Topic 842.

BC30. In addition, paragraph 842-10-65-1(bb) provides transition guidance for existing failed sale and leaseback transactions. That paragraph requires an entity to reassess whether a sale would have occurred at any point on or after the beginning of the earliest period presented in the financial statements in accordance with paragraphs 842-40-25-1 through 25-3. However, paragraph 842-10-65-1(bb) also refers to other transition guidance on sale and leaseback transactions that is not applicable to a failed sale and leaseback transaction (specifically, paragraph 842-10-65-1(dd)), which provides transition guidance for sale and leaseback transactions accounted for as sale and capital leaseback transactions under Topic 840). The second amendment removes that reference.

Issue 13: Impairment of Net Investment in the Lease

BC31. Paragraph 842-30-35-3 requires a lessor to determine the loss allowance related to the net investment in the lease by looking to the guidance in Topic 310, Receivables (or Topic 326, Financial Instruments—Credit Losses, once effective). When determining the loss allowance for a net investment in the lease, paragraph 842-30-35-3 notes that a lessor should:

> . . . take into consideration the collateral relating to the net investment in the lease. The collateral relating to the net investment in the lease represents the cash flows that the lessor would expect to derive from the underlying asset during the remaining lease term (for example, from sale of the asset or release of the asset for the remainder of the lease term), *which excludes the cash flows that the lessor would expect to derive from the underlying asset following the end of the lease term (for example, cash flows from leasing the asset after the end of the lease term)*. [Emphasis added.]

BC32. Stakeholders questioned the meaning of that guidance—particularly, the emphasized portion of the guidance—noting that it would accelerate and improperly measure the loss allowance of the net investment in the lease because the expected cash flows associated with the unguaranteed residual asset appear to be excluded from that assessment.

BC33. The amendments in this Update clarify the Board's intent about determining the loss allowance of the net investment in the lease, which is that the net investment in the lease is a single unit of account for purposes of determining the loss allowance, consistent with paragraphs BC310–BC313 in Update 2016-02. Specifically, for purposes of determining the loss allowance, lessors should evaluate the net investment in the lease using the cash flows that the lessor expects to receive (or derive) from the lease receivable *and* the unguaranteed residual asset during (and following the end of) the remaining lease term. The amount that the lessor expects to derive from the unguaranteed residual asset should be based on the expected value of the residual asset following the end of the lease term (excluding any amounts guaranteed by the lessee or any other third party unrelated to the lessor because those expected cash flows already are considered as part of the lease receivable), effectively incorporating residual asset risk into the loss allowance analysis, together with credit risk. That is, even though the risk associated with the residual asset is risk related to the end-of-lease value of that asset (rather than credit risk), the credit risk assessment model is used to measure the residual asset risk, thereby accomplishing the Board's objective of using a single impairment approach for the entire net investment in the lease.

Issue 14: Unguaranteed Residual Asset

BC34. Paragraph 842-30-35-4 prohibits a lessor from continuing to accrete the unguaranteed residual asset to its estimated value over the remaining lease term if the lessor sells the lease receivable associated with a direct financing lease or a sales-type lease and retains an interest in the unguaranteed residual asset. Some stakeholders noted that this paragraph is silent on circumstances in which a lessor retains *a portion* of the lease receivable. Those stakeholders noted that superseded paragraph 840-30-35-53 only prohibited a lessor that sells *substantially all* of the minimum rental payments associated with a sales-type lease, a direct financing lease, or a leveraged lease and retains an interest in the residual value of the asset from recognizing increases in the value of the lease residual to its estimated value. Because it was not the Board's intent to change GAAP in that regard, the amendment in this Update adds back the term *substantially all* to paragraph 842-20-35-4.

Issue 15: Effect of Initial Direct Costs on Rate Implicit in the Lease

BC35. Under Topic 842, initial direct costs have a different effect on the rate implicit in the lease to use for lease classification depending on whether a lessor is determining whether to classify the lease as (a) a sales-type lease or (b) a direct financing lease or an operating lease. This is because there is different initial measurement guidance for initial direct costs depending on the classification of a lease. For a sales-type lease, paragraph 842-30-25-1(c) requires a lessor to expense initial direct costs at the commencement date if the fair value of the underlying asset is different from its carrying amount. If the fair value of the underlying asset is equal to its carrying amount, then those initial direct costs are deferred. For a direct financing lease (paragraph 842-30-25-8) or an operating lease (paragraph 842-30-25-10), initial direct costs are deferred at the commencement date. For those reasons, when determining the rate implicit in the lease to use for lease classification purposes, paragraph 842-10-25-4 has different guidance depending on the lease classification test to be performed. When determining whether the lease is a sales-type lease, the lessor is required to assume that no initial direct costs will be deferred if, at the commencement date, the fair value of the underlying asset is different from its carrying amount. In contrast, if the lease is not a sales-type lease, the rate implicit in the lease considers initial direct costs when determining whether the lease is a direct financing lease or an operating lease.

BC36. While the above guidance is clear, some stakeholders noted that the ordering of the illustration in Case C of Example 1 (paragraphs 842-30-55-31 through 35-39) has raised questions about how initial direct costs factor into determining the rate implicit in the lease for lease classification purposes. Therefore, the amendments in this Update more closely align the examples with that guidance.

Issue 16: Failed Sale and Leaseback Transaction

BC37. In accordance with Subtopic 842-40, when a sale and leaseback transaction does not qualify as a sale, an entity should account for the transaction as a financing arrangement. Paragraph 842-40-25-5(a) requires a seller-lessee to not derecognize the transferred asset but, instead, to account for any amounts received from the buyer-lessor as a financial liability in accordance with other Topics. The seller-lessee also should continue to recognize depreciation of the underlying asset. In addition, paragraph 842-40-30-6(a) requires the seller-lessee to adjust the interest rate on the financial liability as necessary to ensure that the "interest on the financial liability is not greater than the *principal* payments on the financial liability over the shorter of the lease term and the term of the financing" (emphasis added). This requirement was developed to prevent the seller-lessee from having cumulative negative amortization of the financial liability. However, cumulative negative amortization of the liability would occur when the interest on the financial liability is greater than the *total* payment, not the *principal* payment. Therefore, the amendment in this Update clarifies that the interest on the financial liability should not exceed the total payments on the financial liability. This clarification also is reflected in the relevant illustration on failed sale and leaseback transactions that is contained in Subtopic 842-40.

Effective Date and Transition

BC38. The Board decided that for entities that have early adopted Topic 842, the amendments in this Update should be effective upon issuance of the final Update and the transition requirements should be the same as those in Topic 842. For entities that have not adopted Topic 842, the Board decided that the effective date and transition requirements of the amendments should be the same as the effective date and transition requirements in Topic 842.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update do not require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that improvements to the Taxonomy are required should provide their comments and suggested improvements at Taxonomy Improvements provided at www.fasb.org.