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| Project | **PCC Leases Research Project** |
| Project Stage | **Pre-Agenda Research** |
| Issue | **Outreach Summary and Nonpublic Entity Preparer Cost Survey Responses** |

## Background Information and Memo Purpose

### Background Information

1. As private companies have implemented and subsequently applied Topic 842, Leases, Private Company Council (PCC) members have reported that certain areas of the guidance may be costly and too complex. While Topic 842 provides some relief for private companies in certain areas, such as a lessee's determination of the discount rate and common control arrangements, PCC members have indicated that additional simplifications for private companies should be explored. During the PCC's discussion of its agenda priorities at its April 2024 meeting, members supported conducting preliminary research on lease accounting simplifications. The PCC formed a leases working group that conducted outreach with private company preparers and discussed the feedback received through March 2025. The PCC also discussed upcoming FASB leases post-implementation review (PIR) activities, including the launch of a nonpublic-entity preparer cost survey. Appendix A of this memo includes additional details of PCC members' discussions on leases from April 2024 to March 2025.

### Memo Purpose

2. The purpose of this memo is to provide PCC members with a summary of feedback on the implementation and ongoing application of Topic 842 from (a) private company preparer outreach conducted in late 2024 through April 2025, (b) PCC town hall and liaison meetings occurring from June 2024 through March 2025, and (c) recent private company practitioner outreach performed pertaining to the FASB's PIR project that could help inform the PCC. This memo also provides a summary of responses to the FASB's PIR nonpublic-entity preparer cost survey received through May 10, 2025. Suggestions from stakeholders from all those sources for potential private company simplifications and

other improvements are summarized at the end of this memo. This memo does not include staff analysis or recommendations.

3. This memo is organized as follows:

   (a) Private Company Preparer Outreach

   (b) Nonpublic Entity Practitioner Outreach

   (c) Feedback Obtained During Recent PCC Town Hall and Liaison Meetings

   (d) FASB PIR Nonpublic Entity Preparer Cost Survey Responses

   (e) PCC Leases Working Group Meeting—March 2025

   (f) Summary of Stakeholders' Suggestions and Next Steps

   (g) Appendix A: Excerpts from Recent PCC Meeting Minutes—Discussions on Leases

   (h) Appendix B: Private Company Preparer Outreach Questions

   (i) Appendix C: Nonpublic Entity Preparer Cost Survey Questions

| **Questions for the PCC** |
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| 1. Do PCC members have any questions or comments on the feedback received on Topic 842 from private company stakeholders? |
| 2. Do PCC members want the FASB staff to explore any of the areas discussed by the leases working group (paragraph 134) or the suggestions from private company stakeholders (paragraph 136)? If so, which areas or suggestions should be explored? |
| 3. Considering the feedback, what do PCC members recommend as next steps of the working group? |

## Private Company Preparer Outreach

4. The working group and FASB staff met with private company preparers to better understand the implementation and ongoing application costs of Topic 842, to determine whether any areas of the guidance could be simplified for private company preparers and to inform the FASB's leases PIR. Outreach performed from late 2024 through April 2025 included interviews with eight private company preparers in the following industries:

   (a) Manufacturing and distribution

   (b) Transportation

   (c) Media and entertainment

(d) Automotive dealerships

(e) Healthcare

(f) Professional services—engineering, environmental, construction management, energy, and valuation consulting.

5. During that outreach, the following areas were discussed:

(a) The company's lease portfolio

(b) Overall implementation and ongoing application of Topic 842

(c) Identification of a lease and allocation between lease and nonlease components

(d) Lease classification

(e) Recognition and measurement

(f) Lease modifications

(g) Disclosures

(h) Education

(i) Other feedback.

6. The outreach questions are included in Appendix B.

**The Company's Lease Portfolio**

7. The table below outlines the composition of the lease portfolios of the eight private company preparers who participated in the outreach meetings.

| Industry | Approximate Number of Leases | Classes of Assets | Classification of Leases | Third Party or Related Party |
|---|---|---|---|---|
| Manufacturing and distribution | 75 | Real estate, land, railcars, vehicles | Operating | Third party |
| Manufacturing and distribution | 15 | Real estate, equipment | Operating | Third party |
| Transportation | 70 | Aircraft, equipment, real estate | Operating and finance | Third party |

| Industry | Approximate Number of Leases | Classes of Assets | Classification of Leases | Third Party or Related Party |
|---|---|---|---|---|
| Media and entertainment | 125+ | Real estate, equipment | Operating and finance | Third party |
| Automotive dealership | 27 | Real estate, equipment | Operating | Third party and related party |
| Healthcare | < 50 | Equipment | Operating | Third party |
| Professional services | 52 | Real estate, equipment | Operating | Third party and related party |
| Professional services | 32 | Real estate | Operating | Third party |

**Overall Implementation and Ongoing Application of Topic 842**

***Software/Systems***

8. Three of the private company preparers noted that they use electronic spreadsheets to manage and account for their leases. Two of those preparers engaged third-party consultants to develop spreadsheets that are managed internally, while the other preparer internally developed their own spreadsheet.

9. Four of the private company preparers, with lease portfolios ranging from 32 to 56 leases, use lease accounting software to manage and account for their leases. The cost of that software for those companies ranges from $7,000 to $35,000 annually. The cost of the software was not always a direct correlation to the size of the lease and/or complexity of the lease portfolio. There also was no direct correlation between the number of leases and the cost of software.

10. One of the private company preparers outsources their lease accounting to a third party.

***Frequency of Lease Accounting***

11. Four of the private company preparers with lease portfolios ranging from 15 to 70 leases update their lease accounting monthly. Two preparers with lease portfolios ranging from 75 to 125 leases update their accounting quarterly. Two preparers with lease portfolios ranging from 27 to 50 leases update theirs annually.

12. Those preparers updating their lease accounting monthly or quarterly observed that the ongoing application of lease accounting for existing leases does not take significant time because systems and processes are in place.

13. One of the preparers who updates their lease accounting on an annual basis noted that monthly updates would require additional resources.

***Implementation of Topic 842—Costs and Resources***

14. Overall, all the private company preparers stated that implementing Topic 842 was costly. Seven of those preparers used external consultants to assist with their initial implementation of Topic 842; however, the level of assistance from consultants varied significantly. For example, one preparer noted that a consultant wrote a technical memo supporting their adoption, while the bulk of their implementation activities were done internally. Other preparers used consultants for identifying leases (see paragraph 19), establishing lease liabilities and right-of-use assets, developing ongoing accounting processes, and writing technical memos. The cost of external consultants for those preparers ranged from approximately $20,000 to $75,000 with one preparer spending over $1,000,000. The company spending over $1,000,000 engaged a Big 4 firm to assist in evaluating all contracts to determine whether the contracts were or contained leases and did not have a centralized contract management system in place.

15. One preparer did not hire external consultants and worked with their auditors for assistance with implementation.

***Implementation of Topic 842—Benefits***

16. Five of the private company preparers identified some operational benefits from implementing and applying Topic 842, including:

    (a) Two preparers noted that centralizing their contract procurement process enabled them to establish a more efficient process in tracking, reviewing, and analyzing lease contracts.

    (b) Another two preparers noted that applying Topic 842 provided more visibility into their lease population and how much is spent on leases. One of those preparers mentioned that their leasing strategy is now better informed and that they implemented processes to involve their legal team when entering new contracts.

    (c) One preparer observed that they have better management oversight related to lease renewals and incentives. For example, lease agreements may contain tenant improvement allowances or rent credit conversions that must be requested from the lessor. The preparer stated that previously they may have overlooked such incentives, but now that the incentives are entered into the payment stream in their software, they are more aware of when they are due from the lessor.

***Implementation of Topic 842—Impacts to Loan Covenants***

17. One of the private company preparers stated that they renegotiated loan covenants when implementing Topic 842 but that the renegotiation was not costly.

## Identification of a Lease and Allocation between Lease and Nonlease Components

### *Implementation—Cost and Complexity*

18. Private company preparers noted varying experiences in determining whether contracts are or contain leases when implementing Topic 842.

19. Two preparers noted that there was significant time and costs involved in identifying their leases during implementation. One of those preparers used third-party consultants to assist in evaluating all their contracts to determine whether the contracts were or contained leases. That preparer highlighted that evaluating contracts for potential embedded leases was cumbersome. The preparer noted that while that process was extensive and costly, the company did not identify any material leases that were not previously disclosed under Topic 840 in their financial statements. The other preparer used internal resources to evaluate its contracts, noting that substantial effort was necessary to identify and analyze all contracts, build a contract tracker and decision matrix, update their chart of accounts, implement software, and strengthen internal control processes. Similarly, the preparer noted that their efforts did not result in identifying material leases that were not previously disclosed under Topic 840 in their financial statements.

20. The remaining preparers did not note significant challenges with identifying leases during implementation. Those preparers stated that it was not difficult for them to identify leases because of their low volume of contracts and/or the simplicity of those contracts. Additionally, those preparers did not identify any material leases that were not previously disclosed under Topic 840, nor did they identify any embedded leases within their service and supply contracts.

### *Ongoing Application—Cost and Complexity*

21. Private company preparers did not identify significant ongoing costs or complexities with identifying leases, including evaluating contracts for embedded leases, after implementing Topic 842.

### *Practical Expedients*

22. Two private company preparers noted that they elected the practical expedient to combine lease and nonlease components and account for them as a single lease component and highlighted that electing the practical expedients reduced their implementation costs. The remaining preparers generally did not identify material nonlease components in their contracts.

## Lease Classification

### *Implementation*

23. All but one of the private company preparers elected the practical expedient not to reassess lease classification of existing leases as part of their transition to Topic 842. The other preparer acknowledged that they were unaware of that transitional practical expedient and would have otherwise made that election. That preparer also noted challenges with determining the fair value of the underlying assets and their incremental borrowing rate (IBR).

### *Ongoing Application*

24. Four preparers stated that it is often challenging to determine the fair value of the underlying asset for purposes of classifying a lease as an operating lease or finance lease and that the determination can be costly when third-party appraisers are involved. However, the preparers acknowledged that this was a challenge when applying Topic 840.

## Recognition and Measurement

### *Commencement Date*

25. Two preparers noted difficulty with determining the lease commencement date at implementation and on an ongoing basis. For example, an airline preparer highlighted that the determination is particularly challenging in situations in which the lessor is required to make improvements to the aircraft before lease payments start.

### *Discount Rate*

26. Four of the private company preparers elected to use the risk-free rate practical expedient instead of their IBR to measure their lease liability and stated that determining that rate has not been challenging.

27. The remaining four preparers use their IBR. One of those preparers reassessed the classification of all leases at implementation and because they found that low risk-free rates at initial application would have resulted in more leases classified as finance leases, they opted to use their IBR. Two preparers stated that they plan to become publicly traded companies in the future and follow public company reporting requirements. The preparers provided the following feedback on the costs and complexities related to determining the IBR:

    (a) One noted that they initially engaged a valuation firm for their determination and spent a significant amount of time with their auditors on their IBR determination. Subsequently, they have obtained discount rates from a third-party investor at no cost. That preparer stated that more prescriptive guidance around IBRs would have been helpful.

    (b) Another uses their treasury function to determine their IBR, noting that while the determination may be time-consuming, it is not overly costly.

(c) Another stated that it was very challenging to determine their IBRs upon implementation but for ongoing application, they developed a sensitivity analysis, which is neither time consuming nor costly.

***Lease Term***

28. Private company preparers expressed minimal issues with determining the lease term at implementation or on an ongoing basis. However, one preparer cited difficulty with estimating the lease term on land leases. That preparer's land leases either were negotiated many years ago with a family or small business and provide annual renewal options or are based on verbal agreements. Therefore, the preparer noted difficulty with determining the noncancelable period for verbal arrangements and the likelihood of exercising renewal options in both scenarios.

***Lease Payments***

29. Private company preparers did not identify any significant challenges with determining lease payments in accordance with Topic 842, either during implementation or on an ongoing basis.

**Lease Modifications**

30. Three private company preparers noted that they have not yet applied the lease modifications guidance in Topic 842. Therefore, they were unable to comment on the operability of that guidance.

31. Five private company preparers cited some level of applying the lease modifications guidance in Topic 842 and provided the following feedback:

    (a) One indicated that they had recently terminated certain lease contracts before the end of the contractual lease term. That preparer stated that the Topic 842 lease modifications guidance "worked well" and made sense.

    (b) Another cited two recent lease modifications—one was terminating a lease before the end of the contractual lease term and the other was a change in the timing of lease payments. In both of those scenarios, the preparer stated that they had no challenges with applying the Topic 842 lease modifications guidance.

    (c) Another used nonauthoritative large firm publications to better understand the Topic 842 lease modifications guidance. That preparer indicated that determining whether a modification should be accounted for as a separate contract or as a modification of the existing contract is difficult and costly to evaluate. However, that preparer stated that it would be difficult to create an alternative model. The preparer further noted that in most instances, their modifications were accounted for as a separate contract and were not material.

    (d) Two stated that their lease accounting software has capabilities to account for lease modifications. Specifically, they input the data and the software calculates the necessary adjustments and provides the journal entries to account for the modified leases. One of those two preparers indicated that even with the capabilities of their software, it is challenging to determine whether a change to a contract should be accounted for as a separate contract or as a modification to an existing contract.

**Disclosures**

32. Private company preparers provided feedback on: (a) implementation and ongoing challenges with providing the Topic 842 disclosures, (b) challenges with providing the disclosures required by Topic 850, Related Party Disclosures, for related party leases (primarily those between entities under common control), and (c) the effect of systems and software on a preparer's ability to effectively provide the disclosures. One preparer provided suggestions for private company disclosure relief.

***Implementation***

33. Two preparers noted challenges with preparing the disclosures during the implementation of Topic 842. One of those preparers indicated that weighted-average remaining lease term and discount rate disclosures were difficult to prepare during implementation. That preparer worked with their auditors and indicated that providing those weighted-average disclosures has been relatively easy to comply with on an ongoing basis.

***Ongoing Application Challenges and Private Company Disclosure Relief***

34. One preparer suggested that the PCC consider private company disclosure relief on the requirement in paragraph 842-20-50-4(g)(1). That paragraph requires a lessee to disclose cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows. The preparer noted that providing that disclosure is challenging—specifically because of the significant difficulty in reconciling cash payments to lease liability adjustments when payment dates differ from the lease contract due dates (for example, if a lessee prepays two months).

35. One preparer noted that while identifying and collecting the information to comply with the disclosure requirements may be challenging, they were unable to provide suggestions to reduce those challenges. Another preparer stated that preparing the required disclosures on an ongoing basis (after initial adoption) is straightforward.

***Related Party Disclosures***

36. One preparer with common control lease arrangements acknowledged that the company provides limited disclosures about those arrangements and understands the PCC's recent feedback from financial statement users about wanting enhanced related party lease disclosures. Another preparer with common control lease arrangements stated that they can provide related party lease disclosures as required by Topic 850 without any challenges, noting that their software captures some of the information for those disclosures being provided in the notes to financial statements.

### *Effect of Systems on Providing Disclosures*

37. Three preparers provided varying feedback on how the use of electronic spreadsheets affects their preparation of the Topic 842 disclosures. One of those preparers acknowledged that because electronic spreadsheets are not constructed to capture the information necessary to comply with the Topic 842 disclosure requirements, preparing those disclosures is a significant manual process. The other two preparers indicated that they use their spreadsheets to determine the weighted-average remaining lease term, the weighted-average discount rate, and the future lease minimum lease payments commitment table. One of those preparers stated that minimal time is needed to comply with the disclosure requirements when spreadsheets are used. The other preparer indicated that a significant amount of time is necessary to comply when a spreadsheet is used (albeit not complex).

38. Four other preparers stated that their lease accounting software has the capabilities to assist in preparing quantitative disclosures. One of those preparers stated that manual preparation is needed for certain disclosures because of software limitations. Another preparer stated that disclosures are prepared as part of the outsourcing service.

## Education

39. Private company preparers stated that they were educated about Topic 842 using various sources, including:

    (a) Public accounting firm guides and other firm publications

    (b) FASB and public accounting firm webcasts

    (c) Accounting Standards Codification

    (d) Industry training

    (e) Conferences

    (f) Podcasts

    (g) Consultants

    (h) Business roundtables

    (i) Lease software providers.

40. One of those preparers noted that an abundance of educational materials was available and that they had minimal challenges with understanding the guidance.

41. Another preparer stated that they were unaware that the FASB had educational materials and that it was a missed opportunity on their part not to use those materials. That preparer noted that the vocabulary in the guidance was challenging to understand and ultimately assistance was sought from consultants.

## Other Feedback

### *Financial Statement User Requests*

42. During outreach meetings, preparers were asked whether users of their financial statements have ever requested information about leases that is not provided in the financial statements. Most stated that the primary users of their financial statements are lenders, investors, and in a couple of instances, their Board of Directors. A summary of that feedback is as follows:

    (a) Two stated that users of their financial statements asked questions about leases only in the year of adoption. One of those preparers stated that their primary user asked for information to understand why there was a significant increase in their lease liabilities (and corresponding assets) upon adoption of Topic 842.

    (b) Three stated that they had not received requests or questions from users of their financial statements and noted that their users derive the necessary information from the company's Topic 842 disclosures or that their users do not heavily focus on the lease liability (or other lease information) because it is not material.

    (c) One that did not specify the frequency or type of questions they receive from their users indicated that questions are easier to respond to because they perform their lease accounting on a quarterly basis instead of an annual basis, which was their practice under Topic 840.

    (d) Another stated that their financial statement users (lenders) are interested in their total lease liability, but do not ask for further details about the liability. Additionally, the preparer stated that their users do not ask about the composition of their variable and fixed lease payments. The preparer asserted that what is most important for their lenders is knowing whether the company has the proper facilities to operate during the remaining term of the related debt arrangement.

    (e) Another stated a view that their lenders may question lease information if the company's credit facility ever became significant enough to warrant more complicated covenants.

### *Other Application Feedback*

43. Private company preparers who participated in the outreach meetings were asked whether they had any other feedback to share about challenges with applying Topic 842. A summary of that feedback is as follows:

    (a) Four noted no significant ongoing challenges with Topic 842. One of those preparers provided a view that recognizing all leases on the balance sheet is appropriate. Another one of those preparers stated that the sale and leaseback guidance in Topic 842 is easier to apply than the guidance in Topic 840 for those transactions.

(b) One indicated that although adopting the leases guidance was a significant burden, they would not want the guidance rescinded because of the significant work done to comply with Topic 842. That preparer acknowledged that the quality of the company's financial statements is improved after adopting Topic 842, but they questioned whether the users of their financial statements achieve any significant value from the information. The preparer stated that they have a better handle on lease incentive provisions in their contracts, primarily because of the analysis of all their contracts when implementing Topic 842. Finally, that preparer observed that they now update their lease accounting monthly as opposed to annually when they previously applied Topic 840.

(c) One preparer expressed appreciation for the deferred effective dates provided for private companies, emphasizing that they would not want to "unwind" the accounting now that Topic 842 has been implemented.

44. Those preparers also were asked whether they had experience in applying lease accounting guidance associated with business combinations. Two stated that they have not entered into any acquisitions accounted for as business combinations and none of the preparers commented on the associated lease accounting requirements.

#### *Other Private Company Preparer Feedback Received—GAAP Departure*

45. A private company preparer (manufacturer) provided unsolicited feedback about their accounting as a lessee. The preparer stated that their private company did not adopt the guidance in Topic 842 because the costs of doing so did not justify the benefits.

46. The preparer provided a view that implementing Topic 842 would have been an enormous undertaking, observing that the process for their company would have been complex and resource intensive. The preparer further noted that the company would have needed to modify their debt covenants.

47. The preparer stated that the financial reporting outcomes from Topic 842 may not provide investors and other users of financial statements with the intended transparency and comparability sought by the Board, noting that comparability may continue to be limited because of the complexity of the guidance and differing interpretations. That preparer also stated that the company's lender concluded that Topic 842 did not provide any additional information that was not already available to that lender. Lastly, the preparer stated that the owners of the company do not find value in the new lease standard and that recognizing all leases on the balance sheet would confuse the owners' understanding of the company's balance sheet.

## Nonpublic Entity Practitioner Outreach

48. In March 2025, the FASB staff conducted outreach with 14 practitioners representing 10 smaller public accounting firms. All those practitioners serve nonpublic entity clients, many on the smaller side.

Because smaller private companies rely heavily on practitioners when preparing financial statements and understanding accounting requirements, the FASB staff sought feedback from those practitioners about their clients' experiences with implementing and applying (ongoing) Topic 842. While the outreach was conducted as part of the FASB's leases PIR project, the feedback also is intended to assist the PCC with determining next steps for the working group. The following areas were discussed during outreach:

(a) Practitioner experiences (or their clients' experiences) with implementing Topic 842, including:

  (i) Transition methods elected

  (ii) Transition practical expedients used

  (iii) Nature of implementation costs

  (iv) Areas frequently discussed between auditors and clients

  (v) Education provided to financial statement users about the effects of Topic 842 on private company financial statements

(b) Significant initial costs related to auditing key areas of Topic 842

(c) Ongoing application costs, including those related to systems, policies and procedures, internal controls, and applying specific areas of the guidance

(d) Ongoing costs related to auditing key areas of Topic 842

(e) Challenges in complying with the disclosures in Topic 850 for related party leases (primarily those between entities under common control)

(f) User requests for additional information on leases

(g) Suggested simplifications for nonpublic entities

(h) Benefits for users of nonpublic entity financial statements and benefits realized by nonpublic entities from applying the guidance

(i) Observations related to the costs or benefits of applying the lessor accounting requirements.

***Experiences with Implementation and Initial Costs***

49. Overall, practitioners highlighted that their clients mostly have small lease portfolios. Some practitioners indicated that many of their clients' leases are with a commonly controlled lessor.

50. Most of the practitioners indicated that many of their clients did not have the capabilities (such as the resources, tools, or sophistication) to implement Topic 842, and therefore, engaged the practitioners to assist with the implementation and the ongoing application of Topic 842. Many of those practitioners

purchased lease software to assist their clients with the implementation and ongoing application of Topic 842. The cost of the software and practitioner time to ensure compliance is billed to their clients.

51. Several practitioners noted that qualified opinions are often issued because of a departure from GAAP, specific to not applying Topic 842. Those practitioners stated that neither their clients nor the client's financial statement users find the information provided by Topic 842 beneficial enough to justify the compliance costs. Another practitioner noted that some of their clients have switched their basis of accounting from GAAP to the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs) to avoid applying Topic 842.

52. Several practitioners noted that they spent significant time and resources to educate themselves and their clients on the new standard, which put pressure on already constrained resources.

53. One practitioner specializing in auditing private escrow companies and underwritten title companies cited significant time spent educating clients and regulators on the effects of the new standard because of regulatory covenant compliance concerns caused by the recognition of operating lease obligations on the balance sheet. The regulatory covenants require those companies to maintain certain levels of liquidity, and the recognition of the current portion of operating lease obligations may cause a company to be out of compliance. The practitioner emphasized the challenges in educating clients and regulators that an entity's cash obligations are unchanged by the new standard.

54. Most practitioners noted that they found the transition practical expedients to be helpful.

***Ongoing Costs***

55. Several practitioners noted that because the ongoing application of Topic 842 is typically performed by private company practitioners, the ongoing cost is initially borne by the practitioner and then billed to their clients. That includes the cost of lease software and practitioner services to provide the appropriate inputs and assumptions for their clients' accounting for existing, new, and modified leases. Practitioners noted that while those costs are typically not material, clients often are hesitant to pay the costs because they do not find value in financial reporting resulting from the new standard.

56. The practitioners observed that many clients have been rewriting lease agreements with unrelated parties and entities under common control to achieve short-term lease accounting (leases with a lease term of 12 months or less), which permits them to avoid the balance sheet recognition and measurement requirements in Topic 842. Instead, those companies account for those arrangements consistent with the accounting for executory contracts. The practitioners stated that there is typically a small cost associated with their clients' annual renewal process for those short-term leases.

57. While practitioners stated that they do not find the lease disclosures to be overly complex or challenging, they noted that complying with and auditing the disclosure requirements can be time consuming.

***Challenges with Related Party Lease Disclosures***

58. The practitioners noted that providing Topic 850 related party lease disclosures is not challenging. While most indicated that their clients do not disclose the related party portion of right-of-use assets and lease liabilities, they noted that doing so would not be difficult if users sought that information. Furthermore, practitioners noted that their clients' users have not asked for additional related party lease information.

***Suggested Improvements***

59. Several practitioners suggested potential private company simplifications. Those suggested simplifications are as follows:

(a) **Single lease classification:** One practitioner suggested that a single lease classification model for private companies would ease the burden of determining the inputs necessary (for example, the fair value of the underlying asset) for lease classification at the commencement date or upon a modification or other reassessment event.

(b) **Common control lease arrangement exception:** One practitioner asserted that users of private company financial statements do not find the financial reporting results from Topic 842 useful for common control leases and suggested that those arrangements be exempt from the guidance for private companies. However, the practitioner did not provide an alternative accounting model for private company related party leases, including in situations in which a private company makes significant leasehold improvements.

(c) **Common control lease arrangement written terms and conditions:** One practitioner suggested that private companies be provided with an alternative to determine whether a common control arrangement contains a lease without using written terms and conditions.

***Benefits***

60. The practitioners stated that minimal benefits have been realized by their clients from applying the leases guidance. However, some practitioners acknowledged the following benefits:

(a) The enhanced disclosures provide more useful information to users of the financial statements.

(b) Some of their clients have improved budgeting for leases payments and have more awareness of leasing activities.

***Lessor Accounting***

61. Most of the practitioners who participated in the outreach do not provide services to lessors. Those practitioners who do observed the following:

(a) One highlighted that clients often overlook the required tabular disclosure disaggregating lease revenue.

(b) Two noted that assessing the collectability of operating lease receivables at lease commencement and on an ongoing basis is challenging for clients.

**Other Practitioner Feedback Received**

62. Three smaller practitioners who provide accounting services to nonpublic entities reached out in fall 2024 to provide feedback on leases. Those practitioners indicated that the guidance in Topic 842 is costly and too complex to apply. Additionally, the practitioners provided the following feedback:

(a) Two stated that the financial reporting information that results from applying Topic 842 is not decision-useful for financial statement users and that some of their clients elect GAAP departures to avoid applying the guidance. One of those practitioners noted that the users of their clients' private company financial statements prefer a GAAP departure so that the users can avoid "unwinding" the accounting to perform their analyses. One of those practitioners noted that their significant assistance with their clients' adoption and ongoing application of Topic 842 has inevitably increased costs for their clients.

(b) Another noted that Topic 842 is "conceptually" appropriate for some industries (for example, for private construction companies), but not others. That practitioner suggested that the PCC consider exploring an exception whereby private companies could avoid applying the recognition and measurement requirements for leases under a certain quantitative threshold.

**Other Practitioner Outreach**

63. FASB staff performed PIR outreach with a practitioner who has significant experience with the current and legacy lease accounting requirements, including how they are applied by private companies and their practitioners. In addition, the practitioner was involved in FASB private company standard-setting activities (including Topic 842) and continues to collaborate with the FASB on its projects.

64. Broadly, the practitioner viewed the Topic 840 lessee requirements as a relatively low-cost accounting model and viewed the Topic 842 guidance as a high-cost accounting model that significantly affected private companies. That practitioner highlighted several areas of the guidance that provide ongoing challenges for private companies that could be simplified. Specifically:

(a) **Lease modifications:** The practitioner suggested that a quantitative threshold could be considered for modifications that change the consideration in the contract. Changes that are equal to or are less than the threshold would be exempt from the modification requirements in Topic 842 and any adjustment resulting from the change in consideration would be recognized in earnings. That practitioner suggested that a cash flow test, similar to the debt modifications and extinguishments 10 percent threshold, be incorporated into Topic 842. Under that test, if a lessee's cash outflows after applying the modified terms equal 10 percent or less than the existing cash outflows in the contract, the lessee would not be required to apply lease modification accounting. Similarly, a lessor would compare the cash inflows after applying the modified terms to the existing cash inflows in the contract.

(b) **Related party disclosures:** Because many private companies have material related party leases (in particular, common control lease arrangements), the practitioner suggested that Topic 842 be amended to require specific disclosures for those arrangements, as opposed to relying on the general requirements in Topic 850. The practitioner thinks that prescriptive disclosure requirements would reduce diversity in practice and provide users of private company financial statements with better information about common control leases, which typically have terms and conditions that are not commensurate with the market.

(c) **Weighted-average lease disclosures:** Although the practitioner does not view the weighted-average remaining lease term and discount rate disclosure requirements as costly to apply, when considered with all the Topic 842 required disclosures, they may be unnecessary. That practitioner observed that because those weighted average disclosures are at the entity-wide level and not by asset class, they may not result in companies providing overly useful information to private company financial statement users.

65. Additionally, the practitioner views the requirements in Topic 842 to allocate the consideration between lease and nonlease components in the contract (including variable payments when incurred) as overly rigid, which typically “forces” entities to elect the practical expedient to combine lease and the associated nonlease component(s). Combining the lease and nonlease components naturally inflates a lessee’s lease liability.

66. The practitioner provided the following observations and recommendations related to the FASB standard-setting process and the PCC’s approach to advising the FASB on its major projects:

(a) **FASB field tests:** Field testing of proposed amendments should be performed with private companies of varying sizes before a final standard is issued. The objectives of the field tests would be to determine whether the requirements are operable and to identify challenging areas that could be addressed before finalization.

(b) **PCC engagement with the Board:** That practitioner observed that it is important for the PCC to carefully evaluate the FASB’s detailed proposals to effectively advise the Board on the costs and benefits for private companies and their users for major changes to GAAP that will significantly affect private companies. Additionally, that practitioner emphasized that the PCC should proactively provide suggestions for private company simplifications and alternatives (if warranted) before the Board issues a final standard. The practitioner suggested that this part of the standard-setting process could have been more effective when the leases guidance was being developed and finalized.

## Feedback Obtained During Recent PCC Town Hall and Liaison Meetings

67. The following PCC Town Hall and Liaison meetings have occurred since the PCC determined in April 2024 that leases was a top PCC priority:

    (a) **June 2024:** PCC Forum at the AICPA ENGAGE Conference

    (b) **September 2024:** AICPA Technical Issues Committee (TIC)

    (c) **October 2024:** Risk Management Association (RMA) (now ProSight Financial Association) Accounting Working Group

    (d) **October 2024:** Auditing Standards Board Audit Issues Task Force (ASB AITF)

    (e) **November 2024:** Construction Financial Management Association (CFMA) Emerging Issues Committee

    (f) **January 2025:** Institute of Management Accountants (IMA) Small Business Shared Interest Group (IMA SBSIG)

    (g) **January 2025:** National Association of Surety Bond Producers (NASBP) and Surety and Fidelity Association of America (SFAA).

68. Feedback on the implementation of leases and suggested changes to the leases requirements from those meetings is summarized in the following paragraphs. The participant type is noted in the heading for context.

**PCC Forum at the AICPA ENGAGE Conference (Practitioners and Preparers)**

69. The PCC and the FASB should consider a private company alternative to account for all leases as finance leases, to reduce the overall cost of and complexity in applying the guidance.

70. After the issuance of Accounting Standards Update No. 2023-01, *Leases (Topic 842): Common Control Arrangements*, some private companies documented their unwritten common control lease terms in writing and intentionally structured those arrangements as short-term leases (no balance sheet recognition). A more appropriate solution would be to remove common control lease arrangements from the scope of Topic 842 and improve the associated disclosure requirements.

71. Some smaller private companies lack the resources and sophistication to read, understand, and apply Topic 842. As such, the task of applying the guidance shifts to the practitioners. Practitioners have difficulty becoming fully educated on the guidance; therefore, they have difficulty in assisting their clients with applying the guidance. The PCC and FASB should consider their current education practices and determine whether there is a better way to educate practitioners. The PCC and FASB should focus on creating guidance that is intuitive and less complex.

**AICPA Technical Issues Committee (Practitioners)**

72. Private company stakeholders express ongoing concerns that the guidance in Topic 842 is costly and too complex to apply. However, those stakeholders are not always specific about what drives the cost and complexity; therefore, it is unclear whether the root cause of the cost and complexity is specific aspects of the guidance, operational issues, or technology issues. As a result, it is difficult to determine whether there are simplifications that can be provided to private companies.

73. Some private companies had difficulty gathering complete information during implementation, resulting in some audit adjustments related to the failure to identify leases. Other private companies sought implementation assistance from their practitioners and, as a result, some audit adjustments were needed in their transition to Topic 842.

74. Some private companies use electronic spreadsheets to track and account for leases but should consider using lease accounting software to streamline their accounting processes and to increase accuracy.

75. Practitioners are starting to get questions on how to apply the lease modifications guidance in Topic 842. Remeasuring leases also is expected to be difficult for private companies in scenarios in which private companies did not invest in lease accounting software and are instead using electronic spreadsheets.

**Risk Management Association (now ProSight Financial Association) Accounting Working Group (Financial Statement Users)**

76. Some RMA members stated that the standard improves financial reporting because of the visibility into the magnitude of a borrower’s leases and lease obligations, which those users consider an effective measure of a lessee’s future cash outflows. Other RMA members indicated that they struggle to find an analytical use for the financial reporting information resulting from companies’ application of Topic 842 beyond a company’s total lease obligations. RMA members observed that more time is needed to determine the relevance of the leases information and how that information may be used in their analyses.

77. Some lenders allow borrowers to take a GAAP departure from applying Topic 842, but most require the guidance to be applied and adjust loan covenants as necessary. Some lenders exclude lease liabilities and right-of-use assets in debt covenants, observing that adjusting the financial statements is challenging when entities have many leases or leases with complex terms and conditions.

78. Smaller private companies still struggle to understand the standard and hire outside CPAs to account for their leases.

79. Significant time has been spent educating relationship managers and others at financial institutions about the leases guidance. Those are the individuals responsible for explaining to borrowers how the standard will affect them.

80. Feedback from RMA members on information obtained from the Topic 842 disclosures included:

(a) Enhanced disclosures about related party leases (in particular, common control lease arrangements) and their effect on the financial statements are needed because users analyze common control lease arrangements differently than other lease arrangements. RMA members noted that the recognized lease expense with a related party (in a lessee's financial statements) typically is disclosed. However, the information provided in the notes to the financial statements typically is insufficient to understand the amounts presented on the balance sheet. A disclosure that clearly provides the amount of lease liabilities (and right-of-use assets) associated with common control lease arrangements would be helpful because the corresponding cash flows are likely to be more flexible in scenarios in which a company experiences short-term financial issues. Similar feedback was provided by RMA in 2023.

(b) Information about significant lease modifications should be disclosed. Currently, adjustments to balance sheet amounts because of lease modifications are being recognized without sufficient details disclosed. Qualitative and quantitative information about significant lease modification is needed.

(c) A disclosure that provides finance lease cost (segregated between the amortization of the right-of-use assets and interest expense on the lease liabilities) and operating lease cost is helpful. Some entities provide this disclosure, while others do not.

(d) Regional public accounting firms tend to do a better job encouraging (and at times, requiring) their clients to provide more detailed lease disclosures. Larger public accounting firms require their clients to disclose the minimum based on their experiences.

**Auditing Standards Board Audit Issues Task Force (Practitioners)**

81. The following feedback was received:

(a) Practitioners support including TIC members on the PCC leases working group.

(b) The PCC should consider targeting narrow areas of the guidance that can be simplified for nonpublic business entities.

(c) Fewer private companies have taken GAAP departures than expected.

(d) The AICPA Center for Plain English continues to receive questions on the application of Topic 842.

**Construction Financial Management Association Emerging Issues Committee (Practitioners, Preparers, and Users)**

82. The following feedback was received:

(a) Significant costs were incurred when entities first implemented Topic 842. Most ongoing costs relate to reading and understanding new lease agreements.

(b) Areas that continue to be challenging include evaluating contracts for embedded leases, determining the likelihood of renewal options, and helping banks understand the effect of leases on covenants.

(c) The PCC should consider simplifying the guidance for private companies on evaluating whether there are embedded leases in a service arrangement.

**Institute of Management Accountants Small Business Shared Interest Group (Small Private Company Preparers and Practitioners)**

83. The following feedback was received:

(a) Small private companies do not apply Topic 842 throughout the year. Rather, those private companies account for lease payments on a cash basis during the year and the effort to apply the guidance shifts to their practitioners at year-end. The practical expedients are helpful (for example, combining lease and nonlease components).

(b) The costs for third-party software range from $100 to $125 per lease.

(c) Weighted-average lease disclosures could be an area of private company simplification or exemption. Those disclosures can be costly to prepare and are not viewed as being decision useful for financial statement users.

**National Association of Surety Bond Producers and Surety and Fidelity Association of America (Users)**

84. The following feedback was received:

(a) The financial reporting information resulting from Topic 842 has not changed sureties' and underwriters' analyses or decision making. Ratios commonly used by sureties are not typically affected by the guidance.

(b) The Topic 842 disclosures have not changed sureties' analyses or increased the utility of the financial statement information provided by construction companies.

## FASB PIR Nonpublic Entity Preparer Cost Survey Responses

85. In March 2025, the FASB staff launched a survey requesting feedback from private companies and not-for-profit organizations (nonpublic entities) on implementation and ongoing application costs associated with Topic 842. Survey responses received through May 10, 2025, are included in this memo. Survey questions cover the following areas (see Appendix C for the complete set of questions):

    (a) Accounting Personnel (employees or external personnel)

    (b) Departments Other Than Accounting and Information Technology (for example, Human Resources, Legal, Tax)

    (c) IT Systems

    (d) Preparation Costs

    (e) Audit Costs

    (f) Transition

    (g) Investor/Lender Education

    (h) Practical Expedients and Accounting Policy Elections.

### Demographics of Survey Respondents

86. In total, there were 28 survey respondents. Approximately half of the respondents completed all survey questions, and the other respondents partially completed the survey. Responses from the partially completed surveys are included in the FASB staff analysis.

87. Respondents were asked whether their survey responses were from the perspective of a lessee, lessor, or both—lessee and lessor. Twenty-three respondents (82 percent) responded from a lessee perspective and 5 respondents (18 percent) responded from both a lessee and lessor perspective. No respondents responded from a lessor-only perspective.

88. The industries of survey respondents are shown in the table below.

| **Nonpublic Entity Preparer Survey Respondents by Industry** | **Number of Respondents** |
|---|---|
| Construction | 3 |
| Educational Institutions and Services | 3 |
| Accommodation and Food Services | 1 |
| Agriculture/Forestry/Fishing | 1 |
| Arts/Entertainment/Conventions | 1 |
| Finance and Insurance | 1 |
| Professional/Scientific/Technical Services | 1 |
| Technology | 1 |
| Community Interest Realty Association | 1 |
| Not-for-Profit Social Service Organization | 1 |

| | |
|---|---|
| Unspecified | 14 |
| **Total** | **28** |

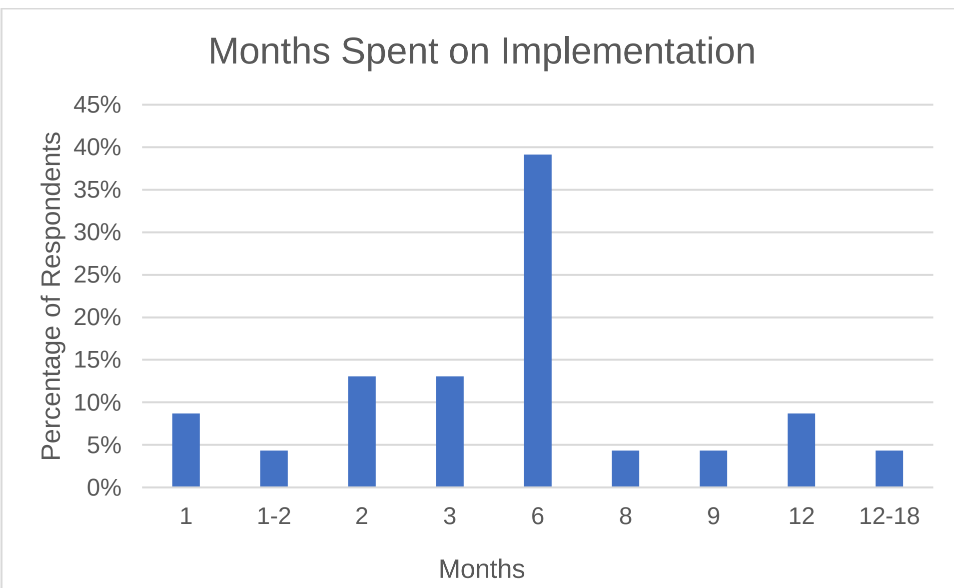
89. The sizes of survey respondents are shown in the table below.

| Nonpublic Entity Preparer Survey Respondents Revenue | Number of Respondents |
|---|---|
| Less Than $10 Million | 2 |
| Between $10 Million and $25 Million | 3 |
| Between $25 Million and $50 Million | 3 |
| Between $50 Million and $100 Million | 1 |
| Between $100 Million and $250 Million | 3 |
| Between $250 Million and $1 Billion | 1 |
| More Than $1 Billion | 1 |
| Unspecified | 14 |
| **Total** | **28** |

*General Questions*

90. Of the 23 respondents who answered the question about their adoption date, 22 nonpublic entities (96 percent) adopted the standard at the effective date and 1 nonpublic entity adopted the standard early.

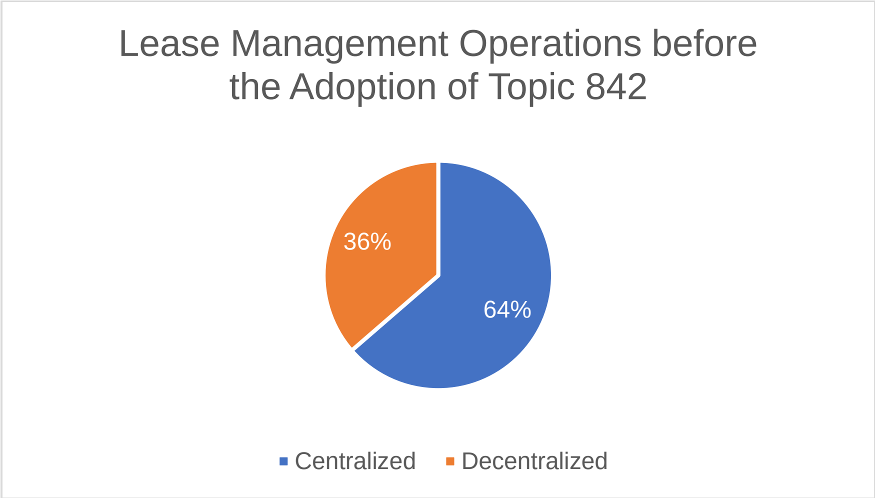
91. Survey respondents were asked how many months they spent on implementation activities, beginning with their entity's assessment or diagnostic activities. Those results (23 respondents) are reported below.

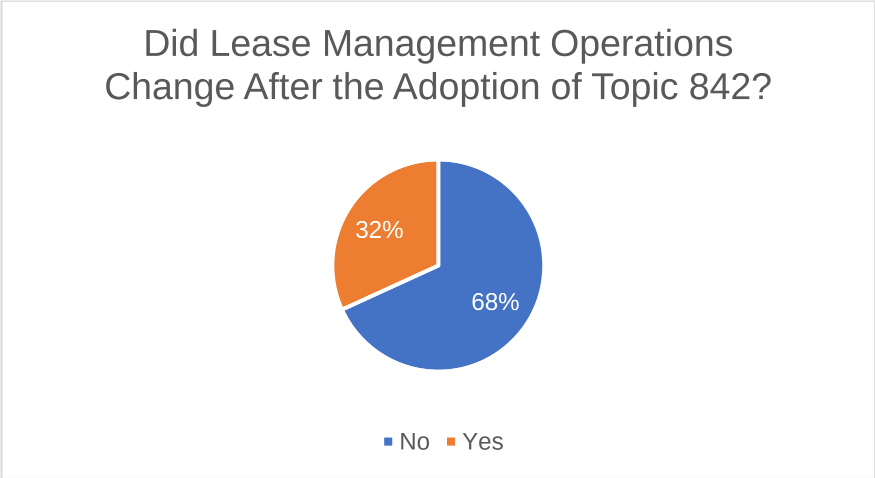



92. Twenty nonpublic entities (87 percent) did not set a budget for implementation costs. Three nonpublic entities (13 percent) set a budget and two of those respondents noted that the total costs incurred were approximately equal to the budgeted amount. Respondents were asked which specific types of costs, if any, exceeded or were less than the budget (respondents could choose more than one type). Three responses indicated that the actual costs of auditing and personnel in functional processes other than

accounting exceeded the budget. Four responses indicated that the actual costs of accounting personnel; investor/lender/grantor/regulatory agencies education; and processes, including IT systems, were less than the budget.

93. Respondents were asked whether their lease management operations were centralized or decentralized before the adoption of Topic 842 and whether their lease management operations changed after the adoption of Topic 842. Those results (22 respondents) are reported below.




94. Fifty percent of the respondents with lease management operations that were more decentralized before the adoption of Topic 842 switched to more centralized lease management operations after the adoption of Topic 842.

95. Respondents were asked to provide feedback about the benefits and costs of Topic 842 and the key internal controls changes made to financial reporting systems as a result of implementing the guidance. Some responses received about benefits and costs are as follows:

(a) The centralization of all leases was a benefit to ongoing lease management operations.

(b) There is better tracking of deadlines about lease renewal notices and upcoming lease term expirations.

(c) Costs include annual lease software fees, the cost of staff labor to enter lease data and record journal entries into the general ledger, ongoing training costs for personnel, and increased audit costs.

(d) One nonpublic entity stated that they are required to put up $10,000 per year as collateral because of the recognition and presentation of operating leases (that is, the right of use assets are all classified as noncurrent and some of the lease liability is classified as current)

(e) The cost-benefit of the standard is not met for smaller entities.

96. Responses received about key internal control changes made are as follows:

(a) Four respondents indicated that no changes to internal controls were made.

(b) Seven respondents indicated that new internal controls were established to:

(i) Facilitate periodic reviews for new and modified leases

(ii) Perform a reconciliation of new lease-related account balances

(iii) Conduct quarterly reviews of lease agreements and rent expense for unrecorded leases

(iv) Perform annual reviews of new contracts for embedded leases

(v) Centralize lease agreements in a single system

(vi) Utilize dedicated personnel for entry of information into the new lease software.

**Accounting Personnel**

97. Respondents were asked whether they made any accounting personnel changes to perform implementation activities. Of the 22 nonpublic entities that responded to the question:

(a) Eight nonpublic entities (36 percent) made no changes to accounting personnel

(b) Six nonpublic entities (27 percent) redeployed current personnel

(c) Four nonpublic entities (18 percent) hired external personnel such as consultants or contractors

(d) Three nonpublic entities (14 percent) responded that they rely on third-party assistance such as from their auditors

(e) One nonpublic entity (5 percent) hired new employees.

98. The reasons cited for the personnel changes included contract review (eight nonpublic entities); external reporting, including disclosures (eight nonpublic entities); technical accounting expertise

(seven nonpublic entities); process or system changes (five nonpublic entities); project management (one nonpublic entity); and other (one nonpublic entity).

99. Ten nonpublic entities responded to the question on whether accounting personnel changes persisted beyond the transition period. Five of those respondents did not expect that personnel changes would persist beyond the transition period while five expected personnel changes to persist for ongoing compliance with the leases standard and refining the implementation of the leases standard.

**Departments Other Than Accounting and IT**

100. Respondents were asked what departments other than accounting and IT incurred additional costs because of the new standard and the type of additional costs incurred. Of the 15 nonpublic entities that responded to the question, 9 nonpublic entities (60 percent) incurred no additional costs in those other departments. Six nonpublic entities (40 percent) incurred additional costs in departments other than accounting and IT, specifically in finance (5 nonpublic entities), procurement (3 nonpublic entities), tax (2 nonpublic entities), internal audit (1 nonpublic entity), legal (1 nonpublic entity), and other departments (1 nonpublic entity). The type of costs incurred in departments other than accounting and IT were additional education or training for internal staff (four nonpublic entities), changes in processes (two nonpublic entities), IT systems (two nonpublic entities), and external specialists (two nonpublic entities).

101. Respondents were asked whether reviewing contracts as part of implementing Topic 842 led to identifying significantly more or fewer leases, improvements to internal controls over contracts, other changes, or no changes. Six nonpublic entities that responded had no changes. Eight nonpublic entities stated that reviewing contracts as part of implementing Topic 842 resulted in identifying significantly more leases (four nonpublic entities), improvements to internal controls (three nonpublic entities), identifying significantly fewer leases (two nonpublic entities), and other changes (one nonpublic entity). Respondents that had significantly more leases reported that the increase resulted from:

    (a) Leases previously assessed as immaterial for disclosures are now assessed as material for recognition and measurement

    (b) Lease payments were previously recorded as operating expenses over the contract term, rather than specifically identified and categorized as leases.

**IT Systems**

102. Three nonpublic entities (20 percent) had their IT systems ready to implement Topic 842 *before* the effective date, six nonpublic entities (40 percent) had their IT systems ready to implement Topic 842 *at* the effective date, and six nonpublic entities (40 percent) had their IT systems ready to implement Topic 842 *after* the effective date.

103. Of the 15 nonpublic entities that responded to the question on whether implementation activities for the new standard include acquiring a new accounting IT system or modifying an existing accounting IT system, 6 respondents (40 percent) acquired a new IT system and 9 respondents (60 percent) utilized a spreadsheet solution. No respondents indicated that existing accounting IT systems were modified.

104. In response to the question about how IT changes were developed, 8 nonpublic entities (53 percent) indicated that they relied on a third party for development, 4 nonpublic entities (27 percent) selected "other" with no further information, and 3 nonpublic entities used internal resources for IT changes.

105. Six nonpublic entities provided the following reasons for acquiring a new accounting IT system:

(a) Ease application of the standard

(b) Improve internal controls

(c) Enhance lease management tools

(d) Assist in complying with the complex requirements

(e) Determine journal entries

(f) Keep track of the volume of leases

(g) Gain efficiencies (that is, reduce the amount of manual work).

106. Of the nine nonpublic entities that use a spreadsheet solution, three internally developed the spreadsheet template and six relied on a third-party developer.

107. Respondents were asked what, if any, data are now captured by the IT systems under the new leases standard that was not previously captured (other than lease assets and lease liabilities). Five nonpublic entities answered "none." Five other nonpublic entities observed changes in the available data for lease term/renewal options (one nonpublic entity), annual reporting deadlines to lessors (one nonpublic entity), all data (two nonpublic entities), and a reconciliation between accounting basis (GAAP) and statutory basis for which previously under Topic 840 there were no differences (one nonpublic entity).

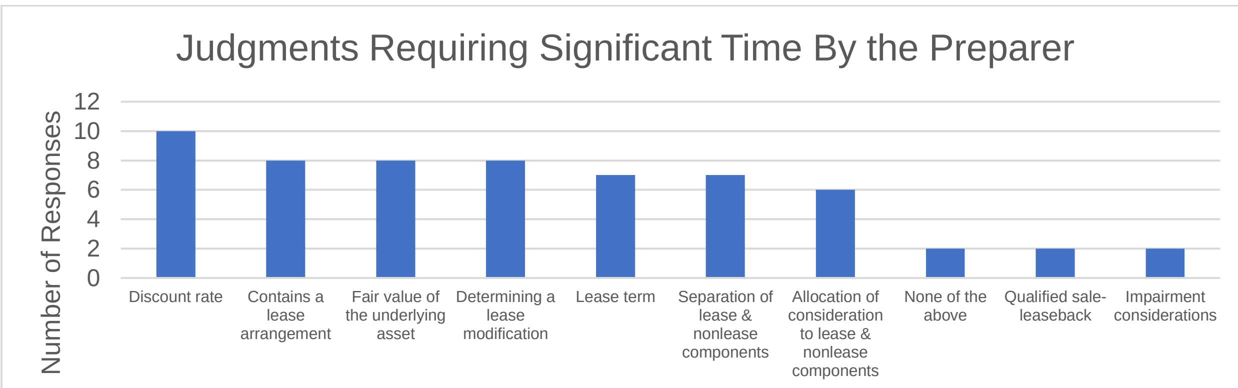
108. Three respondents shared additional information about implementation costs or benefits related to accounting IT systems, with two expressing concerns about the software costs and one expressing concern about software defects (for example, quantitative data for certain disclosures are incorrectly calculated).

**Preparation Costs**

109. Respondents were asked how their employees, including management, learned to prepare for the adoption of Topic 842 (nonpublic entities could select all that apply). Fifteen nonpublic entities responded, with a total of 39 areas selected, as follows:

| Response | Number of Responses | Percent of Responses |
|---|---|---|
| Education provided by external personnel (for example, consultants, auditors) | 12 | 31% |
| Third party lease publications (such as accounting firms guides) | 10 | 26% |
| Implementation resources on FASB's website | 8 | 20% |
| AICPA's audit and accounting guidance on lessee accounting | 5 | 13% |
| Public companies' lease reporting (that is, SEC filings) | 3 | 8% |
| Other | 1 | 2% |

110. Respondents were asked about judgments necessary to apply Topic 842 that required significant time (nonpublic entities could select all that apply). Fifteen nonpublic entities responded, with a total of 60 areas selected, as illustrated below:




111. Fourteen of the 15 nonpublic entity respondents noted that there are no other judgments requiring significant time and 1 nonpublic entity noted that determining materiality in applying the guidance required a significant amount of time.

***Preparation Costs—Lessees***

112. Lessee respondents were asked whether they spent significant time preparing certain disclosures (respondents could select all that apply). Responses from entities that are both a lessee and a lessor are reported in a separate section of this memo. Results from a lessee-only perspective are reported below.

| Disclosure | Number of Responses |
|---|---|
| Nature of leases | 4 |
| Leases not yet commenced but that create significant rights and obligations | 2 |
| Significant assumptions and judgments | 2 |

| | |
|---|---|
| Quantitative disclosures (for example, weighted average remaining lease term, weighted average discount rate, short-term lease cost) | 5 |
| None of the above | 4 |

113. Lessee-only respondents reporting significant time spent preparing the first three disclosures in the preceding table also provided reasons for why significant time was spent (during implementation and on an ongoing basis), as reported below:

(a) Understanding the new disclosures

(b) Gathering information on assumptions used in establishing lease term for land and real estate leases

(c) Having a significant volume of leases results in a significant time to prepare the disclosures

(d) Reconciling information in the lease software system to information in the financial statements

(e) Thorough review to ensure compliance with Topic 842 requirements.

114. Lessee-only respondents who spent significant time preparing quantitative disclosures were asked which quantitative disclosures took significant time to prepare (during implementation and on an ongoing basis) and why. Two nonpublic entities noted that weighted-average discount rates took a significant amount of time to prepare. One nonpublic entity noted that there is not as much time spent on an ongoing basis compared to initial implementation. One nonpublic entity indicated that significant time is spent to ensure completeness and accuracy of the quantitative disclosures. One nonpublic entity indicated that software limitations continue to be a reason why significant time is spent preparing disclosures.

### *Preparation Costs—Lessee-Lessor Perspective*

115. Lessee-lessor respondents were asked whether they spent significant time preparing certain disclosures (respondents could select all that apply) from both a lessee and lessor perspective. Responses are reported below.

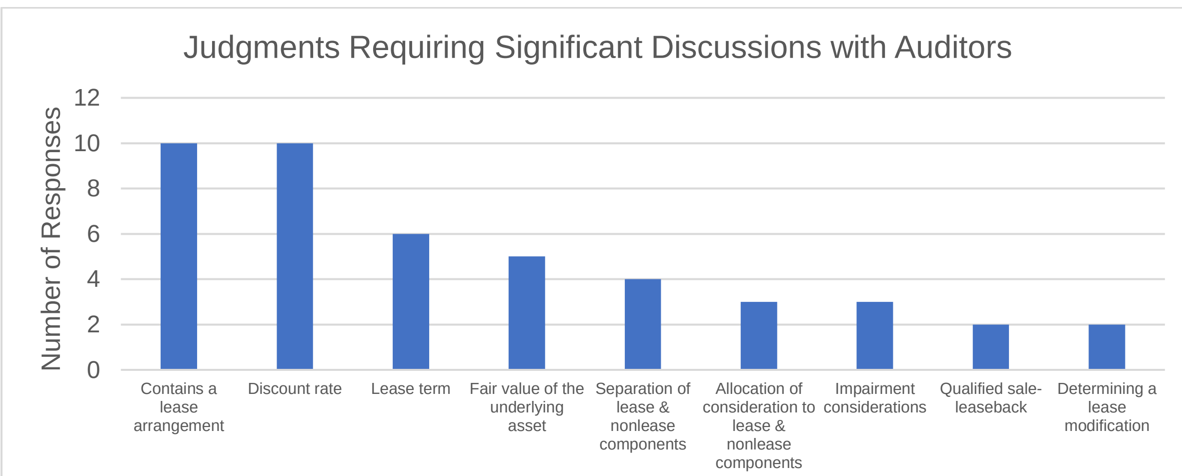
| **Disclosure** | **Lessee Perspective—Number of Responses** | **Lessor Perspective—Number of Responses** |
|---|---|---|
| Nature of leases | 2 | 1 |
| Significant assumptions and judgments | 3 | 1 |
| Quantitative disclosures | 3 | 3 |
| Leases not yet commenced but that create significant rights and obligations | 1 | N/A |
| Information about how your entity manages its risk associated with the residual value of its leased assets | N/A | 0 |
| None of the above | 0 | 0 |

116. One of the lessee-lessor respondents noted that software limitations were the reason why certain quantitative disclosures took a significant amount of time to prepare and that they would be changing software vendors to reduce the preparation time.

**Audit Costs**

117. Twelve nonpublic entities (86 percent) reported higher audit fees as a result of implementing Topic 842. Eleven nonpublic entities estimated 0 to 15 percent of the change in fees was a one-time occurrence and 1 nonpublic entity estimated that 95 percent of the change in fees was for transition only (that is, one-time occurrence). A few of those nonpublic entities indicated that they expect the increase in audit fees to be recurring, with one stating that their audit fees will be 5 to 7 percent higher on an ongoing basis because of the implementation of Topic 842. One nonpublic entity reported lower audit fees as a result of implementing Topic 842 and one nonpublic entity indicated that their audit fee did not change.

118. Respondents were asked about areas in which there was significant discussions with auditors (respondents could select all that apply). Fourteen nonpublic entities responded, with a total of 45 areas selected, as illustrated below:




***Audit Costs—Lessees***

119. Lessee respondents were asked whether they spent significant time discussing certain disclosures with auditors (respondents could select all that apply). Responses from lessee-lessor respondents are reported separately below. Results from a lessee-only perspective were as follows:

| Disclosures that Involved Significant Discussions with Auditors | Number of Responses |
|---|---|
| Nature of leases | 4 |
| Leases not yet commenced but that create significant rights and obligations | 2 |
| Significant assumptions and judgments | 4 |

| | |
|---|---|
| Quantitative disclosures (for example, weighted average remaining lease term, weighted average discount rate, short-term lease cost) | 4 |
| None of the above | 4 |

120. A couple of lessee-only respondents explained that their entity spent significant time discussing the first three disclosures in the preceding table with auditors to (a) seek alignment on materiality assessments and judgments, (b) ensure compliance with disclosure requirements, and (c) increase the knowledge level of accounting personnel. One nonpublic entity noted that their auditors spent time evaluating their lease software to gain comfort that the software was properly preparing all quantitative disclosures.

#### *Audit Costs—Lessee-Lessor Perspective*

121. Lessee-lessor respondents were asked whether they spent significant time discussing certain disclosures with auditors (respondents could select all that apply) from both a lessee and lessor perspective. Responses are reported below.

| Disclosure | Lessee Perspective—Number of Responses | Lessor Perspective—Number of Responses |
|---|---|---|
| Nature of leases | 1 | 1 |
| Significant assumptions and judgments | 2 | 1 |
| Quantitative disclosures | 2 | 2 |
| Leases not yet commenced but that create significant rights and obligations | 1 | N/A |
| Information about how your entity manages its risk associated with the residual value of its leased assets | N/A | 1 |
| None of the above | 0 | 1 |

122. One lessee-lessor respondent noted that from a lessee perspective, their auditors spent significant time evaluating their lease software to gain comfort that the software was properly calculating information needed for the quantitative disclosures. Another nonpublic entity noted that significant time is not spent on an ongoing basis discussing quantitative disclosures with their auditors.

### Transition

123. Of the 23 nonpublic entities that responded to the question on the transition method, 19 nonpublic entities (83 percent) elected to recognize the effects of applying the standard as a cumulative-effect adjustment at the beginning of the period of adoption.[1] The remaining 4 nonpublic entities (17 percent) recognized the effects of applying the standard as a cumulative-effect adjustment at the beginning of the earliest comparative period presented.

[1] This additional transition method was provided in Accounting Standards Update No. 2018-11*, Leases (Topic 842): Targeted Improvements*, largely in response to feedback from stakeholders that the costs of implementing Topic 842, including the costs of software, were greater than anticipated.

124. Respondents were asked whether they spent significant time applying the transition requirements of Topic 842. Eight nonpublic entities (57 percent) reported that they did not spend a significant amount of time applying the transition requirements and six nonpublic entities (43 percent) did.

**Investor/Lender Education**

125. Five nonpublic entities (25 percent) said that they did not provide education assistance to investors/lenders/grantors/regulatory agencies about Topic 842 aside from financial statement disclosures. Nonpublic entities that provided assistance reported the following areas of education: discussion focused on leases (7 responses), pro forma financial information (3 responses), additional lease materials (1 response), and “other” (4 responses). Other responses included (a) educating the entity’s Board members who are users of the financial statements about the financial reporting implications, (b) educating lenders about the financial reporting implications so that they understood the effects on debt covenant calculations, and (c) educating a regulatory agency about the financial reporting implications and the effects on the regulatory reporting calculations.

126. Respondents were asked whether the new standard provided users of their financial statements with more-decision useful information. Those nonpublic entities who are lessee-lessors were asked to respond from both a lessee and a lessor perspective. Responses are reported below.

| Type of Respondent | Yes, more decision-useful information is provided to users | No, more-decision useful information is not provided to users |
|---|---|---|
| Lessee perspective | 5 | 9 |
| Lessor perspective | 0 | 3 |

127. Respondents were asked whether they realized any internal benefits from applying the new standard. Twelve nonpublic entities reported that they did not realize any internal benefits and 2 nonpublic entities reported that they did, such as improved internal controls and documentation and an increased emphasis on evaluating the nature of new contracts.

**Practical Expedients and Accounting Policy Elections**

***Practical Expedients and Accounting Policy Elections—Lessee Perspective***

128. Lessee respondents were asked whether their entity elected certain practical expedients and accounting policy elections. Responses from lessee-lessor respondents are reported below. Results from a lessee-only perspective are as follows.

| | Number of Responses and Percentage of Total Responses | |
|---|---|---|
| **Description** | **Yes** | **No** |
| Combine lease and nonlease components to account for them as a single lease component | 1 (9 %) | 10 (91 %) |

| | | |
|---|---|---|
| Use a risk-free discount rate instead of an incremental borrowing rate | 9 (82 %) | 2 (18 %) |

129. Of those 9 nonpublic entity lessees that elected to use the risk-free rate practical expedient, 8 elected the expedient at the entity level and 1 elected the expedient by the underlying classes of assets.

130. Of the 11 lessee-only respondents who responded to the question on whether their entity enters into lease-type arrangements with entities under common control, 5 indicated that they enter into those types of arrangements and 6 indicated that they do not enter into those types of arrangements. Of the five who said that they enter into those arrangements, three elected the practical expedient that permits private companies and most not-for-profit entities to use the written terms and conditions of a common control arrangement to determine whether a lease exists and two did not elect the practical expedient.

### *Practical Expedients and Accounting Policy Elections—Lessee-Lessor Perspective*

131. Lessee-lessor respondents were asked whether their entity elected the practical expedient to combine lease and nonlease components from both a lessee and lessor perspective. Responses received are reported below.

| | Lessee Perspective—Number of Responses | Lessor Perspective—Number of Responses |
|---|---|---|
| Yes | 2 | 3 |
| No | 1 | 0 |

132. From a lessor perspective, all three further noted that they account for the combined components as an operating lease in accordance with the leases standard.

133. Two lessee-lessor respondents noted that their entity enters into lease-type arrangements with entities under common control and one stated that they do not.

## PCC Leases Working Group Meeting—March 2025

134. The PCC leases working group met in late March 2025. During that meeting, members of the working group discussed recent private company stakeholder feedback obtained, additional outreach needed, preliminary areas to explore, and next steps. A summary of the working group discussion is provided below:

    (a) **Outreach:** Members stated that private company preparer feedback received has been robust and transparent. Members noted that a common theme during those outreach meetings was that implementation was costly and complex and while there are several ongoing challenges with applying the guidance, there may not be pressing standard-setting issues to be addressed. Members discussed the industries represented during preparer outreach and requested outreach with healthcare and retail preparers because those industries commonly have unique lease arrangements. Members also expressed the need to solicit participants' feedback at the June 2025 AICPA ENGAGE Conference.

(b) **Related party disclosures.** Members noted that there is diversity in the type and level of information being disclosed about related party leases. For example, some private companies are disclosing general related party lease terms while other private companies disclose additional information, such as the amount of lease liabilities and right-of-use assets associated with related party leases. Members observed that the disclosures required in Topic 850 are general, which could be a contributing factor to the diversity in practice. Members recommended that additional user outreach be conducted to better understand what specific information is needed and whether the information needed pertains only to common control lease arrangements or to all related party lease arrangements. Lastly, members discussed potential actions, including (i) an FASB staff educational paper to remind preparers and practitioners about the related party disclosure guidance and (ii) potential standard-setting, depending on the results of future outreach and research.

(c) **Embedded leases.** Members discussed stakeholder feedback that indicated that significant time is spent on identifying embedded leases. However, in many instances, that feedback indicated that those leases were not recognized because they were determined to be immaterial. As such, members discussed whether a simplification could be explored that provides private companies with a threshold or screen to determine whether a company needs to recognize an embedded lease.

(d) **Lease modifications.** Members discussed adding a threshold or screen for lease modifications that would allow private companies to recognize the effects of a modification through earnings in all instances. That discussion included preliminary consideration of a 10 percent threshold (modeled on the guidance for debt modifications and extinguishments). Some members discussed other simplifications to the lease modifications guidance that would remove the need to reassess lease classification or discount rate in certain scenarios.

135. The working group expects to meet again after the June 2025 PCC meeting.

## Summary of Stakeholders' Suggestions and Next Steps

136. Stakeholders' suggestions for potential private company simplifications and other improvements included throughout this memo are summarized below:

(a) **Single lease classification:** Consider a single lease classification model for private companies to ease the burden of assessing lease classification at the commencement date and when a lease is modified (from paragraph 59). Similarly, consider a private company alternative to account for all leases as finance leases, to reduce the overall cost and complexity in applying the guidance (from paragraph 69).

(b) **Lease modifications:** Consider a quantitative threshold for modifications that change the consideration in the contract. Changes that have an effect that is equal to or are less than the threshold would be exempt from the modification requirements in Topic 842 and any adjustment resulting from the change in consideration would be recognized in earnings (from paragraph 64).

(c) **Embedded leases:** Consider simplifying the guidance for private companies on evaluating embedded leases in a service arrangement (from paragraph 82).

(d) **Common control lease arrangement exception:** Consider a private company exemption from applying the recognition and measurement guidance in Topic 842 to common control leases (from paragraphs 59 and 70).

(e) **Related party disclosures (in particular, common control arrangements):** Consider prescriptive related party lease disclosure requirements (from paragraph 64) and/or enhanced disclosures about related party leases and their effect on the financial statements are needed (from paragraph 80).

(f) **Cash paid disclosure:** Consider excluding private companies from the requirements to disclose cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows in paragraph 842-20-50-4(g)(1) (from paragraph 34).

(g) **Weighted-average lease disclosures:** Consider excluding private companies from the requirements to disclose weighted-average lease information (from paragraphs 64 and 83). Additional feedback on weighted-average lease disclosures can be found in the June 2025 PCC memo in connection with the PCC's research project on weighted-average disclosures.

137. The FASB staff will obtain feedback from the PCC at the meeting and will determine the next steps on the PCC leases research project thereafter.

## Appendix A: Excerpts from Recent PCC Meeting Minutes—Discussions on Leases

A1. This Appendix includes excerpts from PCC meeting minutes since the April 2024 meeting; the meeting at which the PCC supported conducting preliminary research on potential private company simplifications to Topic 842.

**April 2024**

A2. Four members supported conducting preliminary research on lease simplifications, such as practical expedients or accounting alternatives for private companies. A user PCC member noted that the PCC should rely on practitioners' experiences of implementation issues in practice.

A3. An FASB Board member questioned whether disclosure of related party right-of-use-assets and lease liabilities is a pervasive issue for private company financial statement users. A practitioner PCC member noted that related party disclosure requirements exist today and although it is an important issue, it is not a current high priority. Another practitioner PCC member observed that many users would prefer to know the monthly lease amounts paid to related parties. The PCC chair noted that private companies sometimes assume that their related party transactions are not material and, therefore, may not disclose them.

**June 2024**

A4. PCC members provided input on specific areas in Topic 842, Leases, that may be considered for a potential PCC project. A practitioner PCC member noted that the *substantially all* provision used for determining whether a lease is classified and accounted for as an operating or financing lease is challenging because it requires consideration of the fair value of the leased asset. That practitioner suggested consideration of a practical expedient removing the substantially all provision, which may reduce complexity for determining lease classification both at lease commencement and upon a change accounted for as a modification. A preparer PCC member stated that the substantially all provision poses significant costs to preparers, but that removing it could result in leases being accounted for as operating leases that currently are accounted for as financing leases.

A5. The PCC chair shared that participants at the AICPA ENGAGE conference identified embedded leases and lease modifications as the most challenging areas of Topic 842 and questioned whether opportunities exist for private company simplifications in those areas. An FASB member asked whether the lease modifications guidance in Topic 842 was considered an improvement from Topic 840, Leases. A practitioner PCC member commented that the lease modification guidance in Topic 842 was an improvement but still complex and that there is the potential for additional improvement. However, that PCC member observed that changing the guidance would result in more cost and complexity because it is currently understood in practice.

A6. A preparer PCC member stated that there were significant operational costs and complexities when implementing Topic 842 and that for many private companies, those costs and complexities persist. That preparer PCC member stated that the ongoing overall application of Topic 842 is considered challenging rather than specific issues such as lease modifications or embedded leases. The preparer PCC member noted that improving the accounting for lease modifications was previously considered by the Board and a technical project on that item was ultimately removed from the FASB's technical agenda. That preparer PCC member further noted that because the issue is not unique to private companies, it is questionable whether the PCC should consider working on amendments to the lease modification guidance. Finally, that preparer PCC member commented that a potential alternative for the working group to consider would be a single model in which all leases are accounted for as finance leases.

A7. The FASB chair asked PCC members whether a large portion of the costs and complexities associated with Topic 842 were incurred during implementation or whether there are ongoing application costs and complexities. A practitioner PCC member commented that private companies are facing significant costs and complexities at each year-end because they do not have Topic 842 compliance software to perform the necessary accounting throughout a reporting period and instead make manual adjustments at the end of a reporting period to be compliant. Another practitioner PCC member stated that a large majority of their private company clients use excel to account for leases without an updated rollforward of lease activity during a reporting period, which makes applying the Topic 842 guidance complex and costly at a reporting period date. That PCC member stated that forming a working group to research specific issues may not solve that problem. A preparer PCC member commented that Topic 842 is complex and challenging for many preparers and specific issues like embedded leases and modifications increase complexity but are not the root cause of the complexity.

A8. The PCC chair asked about the appropriate time to form a working group and how its formation would intersect with the FASB's post-implementation review (PIR) activities. FASB staff responded that the next step in the PIR process is to learn more about implementation and ongoing costs incurred by private companies when applying Topic 842, which may help the PCC decide on areas of the guidance to research for simplification. The FASB chair encouraged the PCC working group and the PCC to participate in the PIR process. A practitioner PCC member expressed concern that private companies do not broadly support Topic 842, and providing simplifications to the lease modification guidance or other narrower areas will not solve the broader concerns of private companies.

A9. An FASB member expressed support for forming a working group to assist the PCC in determining whether to continue looking into areas for private company simplification. The PCC chair stated that the formation of a leases working group will be discussed with the Technical Agenda Consultation Group during its next meeting

**September 2024**

A10. FASB staff stated that a leases working group was formed in August consisting of members of the AICPA Private Companies Practice Section (PCPS) Technical Issues Committee (TIC) and members of the PCC. FASB staff thanked those volunteering their time to the working group.

A11. A preparer PCC member stated that the working group held an initial meeting and began to discuss how to identify specific, pervasive private company challenges with the guidance in Topic 842, Leases. That PCC preparer commented that private companies continue to have operational challenges applying the leases guidance, and therefore the working group needs to understand the underlying issues to effectively determine whether there are any simplifications that could be considered for private companies. The same preparer PCC member noted that the working group discussed potential outreach participants and materials. The PCC chair commented that the identification of an appropriate group of private company preparers will help the working group identify the substantive issues that private companies are facing with the leases guidance.

A12. An FASB member stated that as private companies are now in their second year of applying the leases guidance, more granular, focused challenges may surface as opposed to a general concern about the initial implementation efforts and overall operability. A practitioner PCC member commented that the goal of the working group is to identify those specific areas of concern outside of the general concerns expressed about the overall applicability of Topic 842 to private companies. A preparer PCC member suggested looking at lease classification as an area for potential simplification.

A13. The PCC chair noted that the leases working group's efforts will run in parallel with, and be informed by, the FASB leases PIR project. An FASB member commented that the leases PIR process likely will aid the working group in identifying the nature of the issues that private companies are encountering.

**December 2024**

A14. FASB staff updated PCC members on the recent activities of the leases working group and the FASB post-implementation (PIR) project on Topic 842, Leases. FASB staff reported that the working group finalized its preparer outreach materials and began outreach meetings with private company preparers.

A15. A preparer PCC member shared that during outreach, some private company stakeholders indicated that embedded leases is an area of complexity. That preparer PCC member also communicated that private companies that use leasing software have been able to successfully account for their leases in accordance with the guidance; however, those using an electronic spreadsheet to support their lease accounting have struggled, particularly when there is a greater number of leases. A practitioner PCC member shared that they received feedback at an industry conference that lease modifications, sale leaseback transactions, and determining the accounting owner for leasehold improvements are key areas of complexity.

A16. A preparer PCC member inquired about how the outreach being conducted by the leases working group will intersect with outreach that will be conducted for the PIR project. FASB staff communicated that feedback received during the PCC's outreach with private company preparers will be utilized for both the PCC research project and in analyzing and documenting the benefits and costs in the PIR project.

**March 2025**

A17. FASB staff updated PCC members on the recent activities of the leases working group and the FASB post-implementation review (PIR) on Topic 842, Leases. FASB staff and members of the leases working group summarized the feedback obtained during recent outreach meetings with private company preparers. FASB staff noted that it will provide a comprehensive memo, including outreach results, at a future PCC meeting. FASB staff announced that a nonpublic entity preparer survey is being launched soon to solicit feedback on implementation and ongoing application costs.

A18. A preparer PCC member acknowledged the work of the FASB staff in developing thorough outreach materials and facilitating productive dialogues with private company preparers. That member also thanked the outreach participants for their openness and preparedness for those discussions.

A19. A practitioner PCC member noted that there are issues in practice with the modification and reassessment of land leases. FASB staff noted that this issue was not raised by outreach participants. Another practitioner PCC member stated that it would be helpful to conduct outreach with private companies that have land leases and other long-term leases.

A20. A practitioner PCC member asserted that some outreach respondents were using electronic spreadsheets to account for their leases while others were using leasing software. Additionally, that member noted that private company preparers with whom outreach was conducted stated that leasing software generates the weighted-average lease term and weighted-average discount rate disclosures.

A21. The PCC chair noted that the leases working group may want to consider related party lease disclosures as an area to research because financial statement users have regularly indicated that they are not receiving adequate information.

A22. A practitioner PCC member and a preparer PCC member who are members of the leases working group observed that the working group has conducted valuable outreach and needs time to regroup and discuss the feedback received before bringing potential issues and solutions to the broader PCC membership's attention for discussion and consideration.

## Appendix B: Private Company Preparer Outreach Questions

B1. This Appendix includes the outreach questions used by the PCC leases working group and the FASB staff during private company preparer outreach meetings.

**1. Overall:**

a. How many leases do you have? What are the significant classes of assets that your company leases (real estate, construction equipment, office equipment, vehicles, other equipment, etc.)?

b. Are your leases with unrelated parties, related parties (including common control arrangements), or a combination of both?

c. Does your company use lease accounting software?

  i. If yes, what are its capabilities? For example:

    1. Determines lease liability and right-of-use (ROU) asset?
    2. Maintains ongoing accounting, including adjusting lease liabilities and ROU assets for cash payments and income statement effects
    3. Produces information required to comply with presentation and disclosure requirements
    4. Processes lease modification requirements
    5. Tracks related party separately from unrelated party leases?

  ii. If not, what process do you use to manage and account for your leases?

d. How often do you update your lease accounting (ongoing, quarterly, annually)?

e. Did you require additional resources (such as additional staff or external consultants) when first adopting the leases guidance? What ongoing resources are needed for complying with the leases guidance?

f. Are there any benefits that you have identified as a result of applying the leases guidance? For example, better internal tracking of contracts that contain leases.

g. When implementing the new lease standard, were there other effects on your organization such as needing to renegotiate loan covenants?

**2. Identifying a Lease and Lease Components**

a. What is your process for identifying whether contracts are leases (or contain leases)?

  i. Is your process centralized? Was it centralized or decentralized under Topic 840?

b. Did your processes for making that determination change upon the adoption of Topic 842?

  i. Are leases authorized and/or entered into on centralized basis? Is that a change to the business operations?

c. Was identifying leases costly and complex when adopting Topic 842? If yes, please explain the difficulties.

d. Is identifying leases after the adoption of Topic 842 costly and complex? If yes, please explain the difficulties.

e. Have you identified any leases in contracts that provide other services or goods (referred to as embedded leases) at adoption of Topic 842 and on an ongoing basis? If yes, please explain the nature of those contracts.

f. Do your lease contracts contain multiple lease components (more than one asset for use) or nonlease components (other services or goods)? If yes:

  i. What challenges, if any, does your company experience in identifying those components? Please explain.

ii. Does your company account for lease and nonlease components separately or use the practical expedient provided in Topic 842 to combine those components and account for them as a single lease component?

**3. Lease Classification**

a. Are your leases classified as operating leases, finance leases, or a combination of both?

b. Does your company find it costly and complex to determine whether a lease is an operating lease or a finance lease? If yes:

   i. Were challenges limited to the adoption of Topic 842 or ongoing?

   ii. What aspects of the classification requirements are most challenging (for example, determining the fair value of the underlying asset or determining the lease term)?

   iii. What do you do differently under Topic 842 for lease classification than under legacy guidance (Topic 840)?

**4. Recognition and Measurement**

a. Are any of the following determinations for measuring lease liabilities costly and complex to apply, and, if so, please describe your challenges (at adoption and on an ongoing basis).

   i. Commencement date

   ii. Discount rate

   iii. Lease term

   iv. Lease payments

   v. Allocation of consideration to lease and nonlease components

b. Do you measure lease liabilities using the incremental borrowing rate, risk-free rate (by class of underlying asset), or a combination of both?

**5. Lease Modifications**

a. How frequently do you modify leases? Please describe the nature of the modifications (termination, amended lease term, amended lease payments, etc.).

b. Has your company applied the Topic 842 lease modification guidance?

c. Is the modification guidance costly and complex to apply? If yes, please explain.

**6. Disclosure**

a. Is providing information to comply with any of the following new disclosure requirements costly and complex and, if yes please explain the challenges:

   i. The nature of leases

   ii. Information about leases that have not commenced but create significant rights and obligations

   iii. Significant assumptions and judgments

   iv. Quantitative disclosures (for example, weighted average discount rate or weighted average remaining lease term)

b. Have related party disclosures been affected by Topic 842 disclosure requirements?

c. Are there challenges in providing the information required by Topic 850, Related Party Disclosures, for related party leases?

**7. Education**

a. How did you educate yourself to apply Topic 842 (initial and ongoing)?

   i. FASB Accounting Standards Codification - Leases (Topic 842)

   ii. Implementation resources on FASB's website

   iii. Third party lease accounting publications (such as accounting firm guides)

   iv. AICPA education materials (training course, reporting briefs, etc.)

v. Discussions with auditors or consultants

vi. Other (please explain)

**8. Other**

a. Are there other areas of Topic 842 that you find challenging and costly to apply?

b. Do users of your financial statements request information about leases that is not provided in your financial statements/disclosures under Topic 842 or Topic 850 (for example, are users requesting additional information about related party leases)? If yes, please explain.

c. If you have entered into a business combination, have you experienced any particular challenges with lease accounting at the acquisition date?