



October 26, 2017

Ms. Susan M. Cospers, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: **File Reference No. 2017-290**, Proposed Accounting Standards Update, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (Board) Exposure Draft of the Proposed Accounting Standards Update (ASU), *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*.

The IMA is a global association representing over 90,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

The Committee supports the issuance of the proposed ASU to ease the transition to Topic 842. We believe the practical expedient for easements would reduce the cost and complexity to implement Topic 842, particularly for reporting entities with a large number of easements. It would relieve those entities that had not previously assessed whether their easements qualified as leases under Topic 840 *Leases* from having to make that assessment for easements existing at the effective date of Topic 842. We do not believe applying the practical expedient would require different transition provisions or effective date than the transition provisions and effective date in Topic 842. However, we believe the Board should either provide guidance that will facilitate a consistent application of the guidance in Topic 842 to similar types of easements or should provide guidance on how a reporting entity should account for an easement that the reporting entity concludes does not qualify as a lease. We discuss these alternatives further below.

#### *Application Guidance – Easements*

We believe guidance in applying the provisions of paragraphs 1 through 27 of ASC 842-10-15 to easements will be essential to facilitating consistent determinations of whether an easement qualifies as a lease. In particular, we believe diversity in practice will arise if the Board does not provide guidance on how paragraph 16 of ASC 842-10-15 should be applied to determining whether an easement



represents a lease. For example, consider when a telecommunications company enters into an agreement with a farmer to install a tower on a portion of the farmer's field. The telecommunications company has the right to use that portion of the farmer's field, but whether that arrangement qualifies as a lease depends on whether the portion is physically distinct (i.e., what is the unit of account). If the unit of account is the entire field, the telecommunications company would not have a lease. In contrast, if the area defined in the agreement with the farmer is the unit of account, the arrangement would qualify as a lease (provided it has a defined term). While the telecommunications company has the right to use that portion of the field, the application guidance in paragraph 16 of ASC 842-10-15, which focuses on buildings, segments of a pipeline, and a capacity portion of a fiber optic cable, does not facilitate determining whether an easement for a portion of a field is physically distinct from the remainder of the field. Given the number of arrangements that will be affected, we do not believe the Board should assume that practice will reach consistent conclusions in the absence of further application guidance.

### Easements as Intangible Assets

As an alternative to providing application guidance on whether an easement giving a reporting entity the right to use a portion of an asset owned by another reporting entity qualifies as physically distinct, the Board could make the accounting for easements that do not qualify as leases consistent with the accounting for easements that do qualify as leases, similar to the Board's decision in ASU 2015-05 *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)* to require licensees to recognize an asset and a liability for the future payments required under the software license. As noted in paragraph BC8:

... The Board observed that licenses of internal-use software are one of many types of licenses and decided that the accounting for software licenses should not be different from the accounting for other licenses of intangible assets. ... If a customer is obtaining a software license, it should account for that license consistently with the acquisition of any other license of an intangible asset.

While one could argue that easements are not licenses, we do not see a significant difference between the two types of arrangements that would justify a different accounting result. If the Board were to address the accounting for easements under Topic 350 and require accounting similar to the accounting for licenses of internal-use software, the need for application guidance on determining when an easement qualifies as a lease would be eliminated.

### Other Matters

We encourage the Board to clarify the wording in paragraph 30 of ASC 350-30-55. We are concerned that the proposed edits to that paragraph might be misinterpreted as signaling that, generally speaking, easements are not leases. We understand the reason for the conclusion in this example is that the arrangement is perpetual and thus is not a lease because it does not have a stated term. It would be helpful to include that reason as part of the proposed amendment.

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The Association of  
Accountants and  
Financial Professionals  
in Business

We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA  
Chair, Financial Reporting Committee  
Institute of Management Accountants  
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