

July 15, 2021

Ms. Hillary H. Salo

Technical Director

Financial Accounting Standards Board

401 Merritt 7, P.O. Box 5116

Norwalk, CT 06856-5116

File Reference No. 2021-003

Dear Ms. Salo:

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities* (the “Proposed Update”).The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

The Committee supports the Board’s efforts to improve the information reported by lessees under ASC 842 by permitting a reporting entity to elect the use of the risk-free rate by class of underlying asset. The amendment will permit a reporting entity to develop the incremental borrowing rate for material leases (generally real estate leases) while preserving the entity’s ability to utilize the risk-free rate for its other, less material, leases. Using the incremental borrowing rate will result in the recognition of lease liabilities that more closely approximate the amount of the hypothetical borrowing the reporting entity would need to acquire the interest in the underlying asset provided through the lease.

We also agree with the Board’s decision to clarify that a reporting entity should use the rate implicit in the lease when that rate is readily determinable, notwithstanding the ability to elect to use the risk-free rate. Some Committee members believe further clarification of what “relevant inputs” are required for the rate implicit in the lease to be readily determinable. Those members understand that if a reporting entity does not know, or cannot reliably substantiate, the amount of initial direct costs the lessor actually defers, the rate implicit in the lease will not be readily determinable. If that is correct, those members believe the Board’s clarification of its original intent that a reporting entity use the rate implicit in the lease rather than the risk-free rate will have little practical effect on the accounting by a reporting entity that is not a public business entity.

We do not believe the Board should provide reporting entities that are not public business entities with an option of using a corporate bond rate (or an average of corporate bond rates). We believe there are a number of practical issues that would make the use of such a rate (or average of rates) difficult. For example, including corporate bonds that are prepayable would presumably not be appropriate for determining the discount rate because it would not reflect the terms of the financing provided by the lease (i.e., the lease liability is not prepayable). While the use of a corporate bond rate rather than the risk-free rate would be closer to the incremental borrowing rate, we do not believe it would represent a significant improvement over the use of the risk-free rate.

Lastly, we agree with the Board’s proposed disclosures, effective date, and transition effects.

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We appreciate the opportunity to provide our comments and observations on the Proposed Update and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**William Keirse, CPA**   
Chair, Accounting Principles Committee

**Matt Mitzen, CPA**   
Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE

ORGANIZATION AND OPERATING PROCEDURES

2021-2022

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee’s comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Ryan Brady, CPA Grant Thornton LLP

Ashley Carboni, CPA KPMG LLP

Michael Couillard, CPA Baker Tilly Virchow Krause LLP

Matthew Denton, CPA Sikich LLP

Jason Eaves, CPA Crowe LLP

William Keirse, CPA (Chair) Ernst & Young LLP

Jason Plourde, CPA Grant Thornton LLP

Darshana Raigaga, CPA BKD LLP

David Wentzel, CPA Crowe LLP

**Medium:** (more than 40 professionals)  
Danielle Martin, CPA Porte Brown LLC  
Jeffery Watson, CPA Miller Cooper & Company Ltd

Jennifer Walters, CPA Miller Cooper & Company Ltd

**Small:** (less than 40 professionals)  
Peggy Brady, CPA Selden Fox, Ltd.  
Brian Kot, CPA Cray Kaiser Ltd CPAs

Matthew Mitzen, CPA (Vice Chair) Bronswick Benjamin P.C.

**Educators:**

Mollie Adams, CPA Bradley University

John Hepp, CPA University of Illinois at Urbana-Champaign

**Industry:**

John Bercerril, CPA Elkay Manufacturing

Christopher Carli, CPA FreightCar America Inc.

Jeffrey Ellis, CPA FTI Consulting, Inc.

Michael Maffei, CPA GATX Corporation

Thomas Masterson, CPA Medix

Lisa Sezonov, CPA Northern Trust

Richard Tarapchak, CPA Reynolds Group Holdings

William Wang, CPA Union Tank Car Company

**Staff Representative:** Rafael Wiesenberg, CPA Illinois CPA Society