

*Proposed Accounting Standards Update*

Issued: September 25, 2017  
Comments Due: October 25, 2017

Leases (Topic 842)

Land Easement Practical Expedient  
for Transition to Topic 842

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topics 350 and 842 of the *FASB Accounting Standards Codification*<sup>®</sup>. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2017-290, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

## Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until October 25, 2017. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2017-290
- Sending a letter to “Technical Director, File Reference No. 2017-290, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at [www.fasb.org](http://www.fasb.org).

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at [www.fasb.org](http://www.fasb.org).

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# Proposed Accounting Standards Update

## Leases (Topic 842)

### Land Easement Practical Expedient for Transition to Topic 842

September 25, 2017

Comment Deadline: October 25, 2017

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# Summary and Questions for Respondents

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

On February 25, 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. The FASB has been assisting stakeholders with implementation questions and issues as organizations prepare for the adoption of Topic 842.

In connection with the FASB's transition support efforts, a number of stakeholders have inquired about the application of Topic 842 to land easements. Land easements (also commonly referred to as rights of way) represent the right to use, access, or cross another entity's land for a specified purpose. There currently is diversity in practice in accounting for land easements. For example, while some entities apply Topic 840, *Leases*, for the accounting of their land easements, other entities apply other Topics within the *FASB Accounting Standards Codification*<sup>®</sup>, such as Topic 350, *Intangibles—Goodwill and Other*, or Topic 360, *Property, Plant, and Equipment*.

Entities that do not currently apply Topic 840 to land easements have indicated that evaluating all existing land easements in connection with the adoption of Topic 842 to assess whether they meet the definition of a lease would be costly and complex (for example, because of the volume and age of those easements). Those entities also have indicated that the benefits of applying Topic 842 to those existing land easements would likely be limited because many of their land easements would not meet the definition of a lease in Topic 842 or, even if they met that definition, many of their easements are prepaid and, therefore, already are recognized on the balance sheet.

The amendments in this proposed Update would (1) clarify that land easements should be evaluated under Topic 842 and (2) address stakeholder concerns about the costs and complexity of complying with the transition requirements in Topic 842 for land easements not previously assessed under Topic 840 by providing an optional transition expedient.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect entities with land easements that exist or expired before Topic 842's effective date, provided that an entity does not apply Topic 840 to those land easements.

## What Are the Main Provisions?

The amendments in this proposed Update would clarify that land easements are required to be assessed under Topic 842 to determine whether the arrangements are or contain a lease.

The amendments in this proposed Update also would permit an entity to elect a transition practical expedient to not apply Topic 842 to land easements that exist or expired before the effective date of Topic 842 and that were not previously assessed under Topic 840. An entity would be required to apply the practical expedient consistently to all of its existing or expired land easements that were not previously assessed under Topic 840. An entity would continue to apply its current accounting policy for accounting for land easements that existed before the effective date of Topic 842. Once an entity adopts Topic 842, it would apply that Topic prospectively to all new (or modified) land easements to determine whether the arrangement should be accounted for as a lease.

This proposed Update also would amend Example 10 (paragraphs 350-30-55-29 through 55-32) of Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill. The amendment in this proposed Update would clarify that an entity should determine whether land easements are leases in accordance with Topic 842 before applying the guidance in that example.

## When Would the Amendments Be Effective?

The amendments in this proposed Update would affect the amendments in Update 2016-02, which are not yet effective but can be early adopted, and Example 10 of Subtopic 350-30. The effective date and transition requirements for the proposed amendments would be the same as the effective date and transition requirements in Update 2016-02.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed amendments as well as from

those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed amendments are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Would the land easement practical expedient in this proposed Update reduce the cost and complexity to implement Topic 842? If not, please explain why.

**Question 2:** Would the proposed amendments require transition provisions or an effective date that is different from those for Topic 842? If yes, please explain what transition requirements and/or effective date you would recommend and why.





# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–3. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 350-30

2. Amend paragraph 350-30-55-30, with a link to transition paragraph 842-10-65-1, as follows:

### **Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill**

#### **Implementation Guidance and Illustrations**

##### **> Example 10: Easements**

**350-30-55-30** Entity A is a distributor of natural gas. Entity A has two self-constructed pipelines, the Northern pipeline and the Southern pipeline. Each pipeline was constructed on land for which Entity A owns perpetual easements that Entity A evaluated under Topic 842 and determined do not meet the definition of a **lease** under that Topic. The Northern pipeline was constructed on 50 easements acquired in 50 separate transactions. The Southern pipeline was constructed on 100 separate easements that were acquired in a business combination and were recorded as a single asset. Although each pipeline functions independently of the other, they are contained in the same **reporting unit**. Operation of each pipeline is directed by a different manager. There are discrete, identifiable cash flows for each pipeline; thus, each pipeline and its related easements represent a separate asset group under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10. While Entity A has no current plans to sell or otherwise dispose of any of its easements, Entity A believes that if either pipeline was sold, it would most likely convey all rights under the easements with the related pipeline.

## Amendments to Subtopic 842-10

3. Amend paragraph 842-10-65-1 as follows:

### Leases—Overall

#### Transition and Open Effective Date Information

##### > Transition Related to Accounting Standards Update No. 2016-02, *Leases (Topic 842)*

**842-10-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2016-02, *Leases (Topic 842)*:

#### Practical expedients

- f. An entity may elect the following practical expedients, which must be elected as a package and applied consistently by an entity to all of its leases (including those for which the entity is a lessee or a **lessor**), when applying the pending content that links to this paragraph to leases that commenced before the effective date:
  1. An entity need not reassess whether any expired or existing **contracts** are or contain leases.
  2. An entity need not reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as **operating leases** in accordance with Topic 840 will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with Topic 840 will be classified as **finance leases**).
  3. An entity need not reassess **initial direct costs** for any existing leases.
- g. An entity also may elect a practical expedient, which must be applied consistently by an entity to all of its leases (including those for which the entity is a lessee or a lessor) to use hindsight in determining the **lease term** (that is, when considering lessee options to extend or terminate the lease and to purchase the **underlying asset**) and in assessing impairment of the entity's **right-of-use assets**. This practical expedient may be elected separately or in conjunction with ~~the~~either one or both of the practical expedients in (f) and (gg).
- gg. An entity also may elect a practical expedient to not assess whether existing or expired land easements that were not previously assessed under Topic 840 on leases are or contain a lease under this Topic. For purposes of (gg), a land easement (also commonly referred to as a right of way) refers to a right to use, access, or cross another entity's land for

a specified purpose. This practical expedient shall be applied consistently by an entity to all its existing and expired land easements that were not previously assessed under Topic 840. This practical expedient may be elected separately or in conjunction with either one or both of the practical expedients in (f) and (g). An entity that elects this practical expedient for existing or expired land easements shall apply the pending content that links to this paragraph to land easements entered into (or modified) on or after the date that the entity first applies the pending content that links to this paragraph as described in (a) and (b). An entity that previously assessed existing or expired land easements under Topic 840 shall not be eligible for this practical expedient for those land easements.

## Disclosure

- i. An entity shall provide the transition disclosures required by Topic 250 on accounting changes and error corrections, except for the requirements in paragraph 250-10-50-1(b)(2).  
**Note:** See paragraph 250-10-S99-6 on disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant.
- j. If an entity uses one or ~~both~~ more of the practical expedients in ~~(f) and (f)~~, (g), and (gg), it shall disclose that fact.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

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

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting the proposed approach. Individual Board members gave greater weight to some factors than to others.

## Background Information

BC2. The amendments in Update 2016-02 were issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. Since the issuance of the amendments in February 2016, the FASB has been assisting stakeholders with implementation questions and issues as organizations prepare for the adoption of Topic 842.

BC3. Stakeholders have inquired about the application of Topic 842 to land easements. Their concerns primarily involved the cost and complexity of potentially having to evaluate all existing land easements at transition. Some entities reported having thousands of land easements going back many decades. A land easement, which represents the right to use, access, or cross another entity's land for a specified purpose, may take different forms. For example, a land easement might be acquired for the right to pass a pipeline or other assets over, under, or through an existing area of land or body of water while allowing the landowner (or others) continued use of the land for other purposes (farming, hunting, and so forth) as long as the landowner (or others) does not interfere with the rights of the easement holder.

BC4. A land easement may be perpetual or term based, provide for exclusive use or nonexclusive use (shared use) of the land, and may be prepaid or paid over a defined term. A perpetual land easement provides the easement holder with the right to use specified property in perpetuity, generally subject to the condition that the easement holder must continue to use the land for the purpose specified in the arrangement.

BC5. In response to stakeholder questions about land easements, the FASB conducted outreach meetings and held a workshop on land easements with representatives from various industries and accounting firms that are most involved in land easement arrangements to better understand how land easements are currently accounted for under GAAP. Stakeholders said that diversity in practice currently exists in accounting for land easements. While some entities

currently apply Topic 840 to account for their land easements, other entities apply other guidance. For example, some entities account for prepaid land easements as costs incurred to bring the related asset (for example, a pipeline) to the condition and location necessary for its intended use (paragraph 360-10-30-1), while others account for prepaid land easements as intangible assets on the basis of the guidance in Example 10 in Subtopic 350-30 (paragraphs 350-30-55-29 through 55-32). Furthermore, some entities account for land easements paid over time as either executory contracts or finite life intangible assets, while others account for such easements as leases.

BC6. Stakeholders that do not currently apply Topic 840 for the accounting of their land easements said that it is unclear whether they should evaluate existing and future land easements under Topic 842 upon adoption of that Topic. They also said that evaluating all existing land easements under Topic 842 would be costly and complex and have limited benefits.

## Basis for Conclusions

### Benefits and Costs

BC7. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements. The Board concluded that the benefits of the amendments in this proposed Update would justify the costs, as explained in paragraphs BC10 and BC11.

### Scope

BC8. The Board noted that a land easement conveys (in various forms) a right to use land and that a right to use land needs to be evaluated to determine whether it is within the scope of Topic 842. Accordingly, the amendments in this proposed Update provide clarity that an entity would apply Topic 842 to a land easement to determine whether that easement is or contains a lease. Although land easements need to be evaluated under the provisions of Topic 842, not all land easements will meet the definition of a lease in Topic 842. Topic 842 has a framework (that is, the guidance on identifying a lease and related implementation and illustrative guidance) to determine whether a land easement is or contains a lease. If an entity

determines that a land easement is not, or does not contain, a lease, then the entity would look to other Topics for the accounting guidance on that land easement. While there may be diversity about which guidance an entity should apply when a land easement is not a lease, that diversity is outside the scope of the amendments in this proposed Update.

BC9. The Board acknowledged that the diversity in practice about whether an entity applies Topic 840 to land easements might be due, in part, to Example 10 in Subtopic 350-30. That example describes perpetual land easements in that fact pattern as intangible assets. Some stakeholders have interpreted that example to indicate that all land easements should be accounted for as intangible assets. Accordingly, the Board is proposing an amendment to Example 10 in Subtopic 350-30 in this proposed Update that would clarify that the entity determined that the easements in that fact pattern do not meet the definition of a lease.

## Land Easement Practical Expedient for Transition to Topic 842

BC10. Stakeholders that do not apply Topic 840 when accounting for their existing land easements have observed that evaluating existing land easements under Topic 842 likely would result in substantial implementation costs for some entities (for example, because of the volume and age of those arrangements) and could result in significant challenges to the ability to adopt Topic 842 in a timely manner. Those stakeholders also have noted that there would be limited benefits from this required evaluation because:

- a. Many of their land easements would not meet the definition of a lease in Topic 842 because of the characteristics of their land easements (for example, many land easements are perpetual in nature).
- b. A large majority of land easements are prepaid and, therefore, already are recognized on the balance sheet.

Some stakeholders have noted that transition to Topic 842 would be eased significantly if an entity was required to evaluate only land easements entered into on or after the effective date of Topic 842.

BC11. The Board acknowledged that the accounting result from an entity applying its current accounting policies might not be the same as the result from applying Topic 842 to all existing land easements. However, the Board also noted that the accounting result of requiring an entity to evaluate all existing land easements under Topic 842 likely would not be significantly different for many entities and, therefore, the benefits of that evaluation would not justify the costs. Accordingly, the Board decided to propose transition relief in the form of an optional practical expedient. The proposed practical expedient would substantially reduce the cost and complexity of transitioning to Topic 842 without significantly reducing the quality of information provided to investors as well as enable those entities to adopt Topic 842 in a timely manner.

BC12. The Board, therefore, is proposing to include a practical expedient as part of the transition guidance in Topic 842. If an entity elects that proposed practical expedient, it would not apply Topic 842 to its land easements that exist or expired before the effective date of that Topic, provided that the entity does not apply Topic 840 to those land easements. The practical effect of the proposed practical expedient is that, if it is elected, an entity would “run off” those land easements that existed before Topic 842’s effective date using its historical accounting policy, unless the entity modifies those land easements on or after the date that the entity adopts Topic 842. In addition, the proposed practical expedient would not apply to land easements entered into on or after the effective date of Topic 842. A new or modified land easement would be assessed prospectively under Topic 842 to determine whether it is or contains a lease. The Board also decided that an entity would apply the proposed practical expedient to all of the entity’s land easements that were not previously assessed under Topic 840 (rather than, for example, on a contract-by-contract basis). An entity also would be able to elect to apply the proposed practical expedient regardless of whether it elects to apply other practical expedients included in Topic 842. If an entity uses the proposed practical expedient, it would disclose that fact.

BC13. An entity that applies Topic 840 when accounting for land easements would not be able to elect the proposed practical expedient for those land easements. Instead, that entity would maintain its current accounting policies for those land easements up to the effective date of Topic 842, at which point it would apply Topic 842 (see paragraph BC15 for additional considerations). Similar to its applying Topic 840, an entity would account for some land easements as leases under Topic 842 and not account for others as leases. If existing or expired land easements were accounted for as operating leases under Topic 840 (and, therefore, were off balance sheet), those land easements generally would go on the balance sheet when an entity adopts Topic 842. Although the entity would not be able to elect the new proposed practical expedient for those land easements, it would be able to elect other practical expedients included in the transition guidance of Topic 842, including the package of practical expedients provided in paragraph 842-10-65-1(f), which permits an entity to grandfather its prior conclusions reached under Topic 840. An entity that elects one or more of the practical expedients in Topic 842’s transition guidance must disclose that fact.

## Effective Date and Transition

BC14. The amendments in this proposed Update would affect the guidance in Update 2016-02, which is not yet effective but can be early adopted, and in Example 10 of Subtopic 350-30. The Board decided that the effective date and transition requirements for the amendments in this proposed Update would be the same as the effective date and transition requirements in Update 2016-02.

BC15. A Board member expressed concerns that if the effective date of the amendments in this proposed Update is aligned with Topic 842’s effective date,

some entities might take advantage of the current lack of clarity in GAAP on how to account for land easements between the date that the proposed amendments are finalized and the effective date of Topic 842. To address those concerns, the Board observed that it would be inappropriate for an entity to change its current accounting policy (or adopt a new accounting policy) on land easements (or economically similar arrangements) simply to obtain a specific accounting outcome. For example, an entity that currently applies Topic 840 for the accounting of its land easements would not be able to change its current accounting policy before the effective date of Topic 842 without applying Topic 250, Accounting Changes and Error Corrections, including the requirement that the change should be preferable.



## Amendments to the XBRL Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org). After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at [www.fasb.org](http://www.fasb.org) and finalized as part of the annual release process.