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In a proposed update to lease accounting rules, the Financial Accounting Standards Board (FASB) intends to tighten guidance for arrangements between entities under common control.

Since the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, in early 2016, the board said it has made monitoring and assisting companies and other entities implementing the rules a top priority through its post-implementation review (PIR) process.

The FASB said:

PIR activities include, but are not limited to, responding to technical

applying Topic 842 to related party arrangements between entities under common control. Specifically, those areas are:

- Which terms and conditions should be considered when determining whether a lease exists and, if so, the classification and accounting for the lease.
- The accounting for leasehold improvements associated with leases between entities under common control.

The proposed ASU would provide private companies and nonprofit organizations that are not conduit bond obligors with a practical expedient that would allow those entities to use the written terms and conditions of an arrangement between entities under common control to determine whether a lease exists and, if so, the classification of and accounting for that lease, according to the FASB.

The proposed ASU also would change the accounting for leasehold improvements associated with leases for all entities, including public companies, under common control. Leasehold improvements associated with those leases would be amortized by the lessee over the economic life of the leasehold improvements as long as the lessee controls the use of the leased asset, the FASB said.

Comments on the proposed ASU can be submitted to the FASB until Jan. 16, 2023. Instructions on how to submit comments can be found in the exposure draft.

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