Accounting Spotlight
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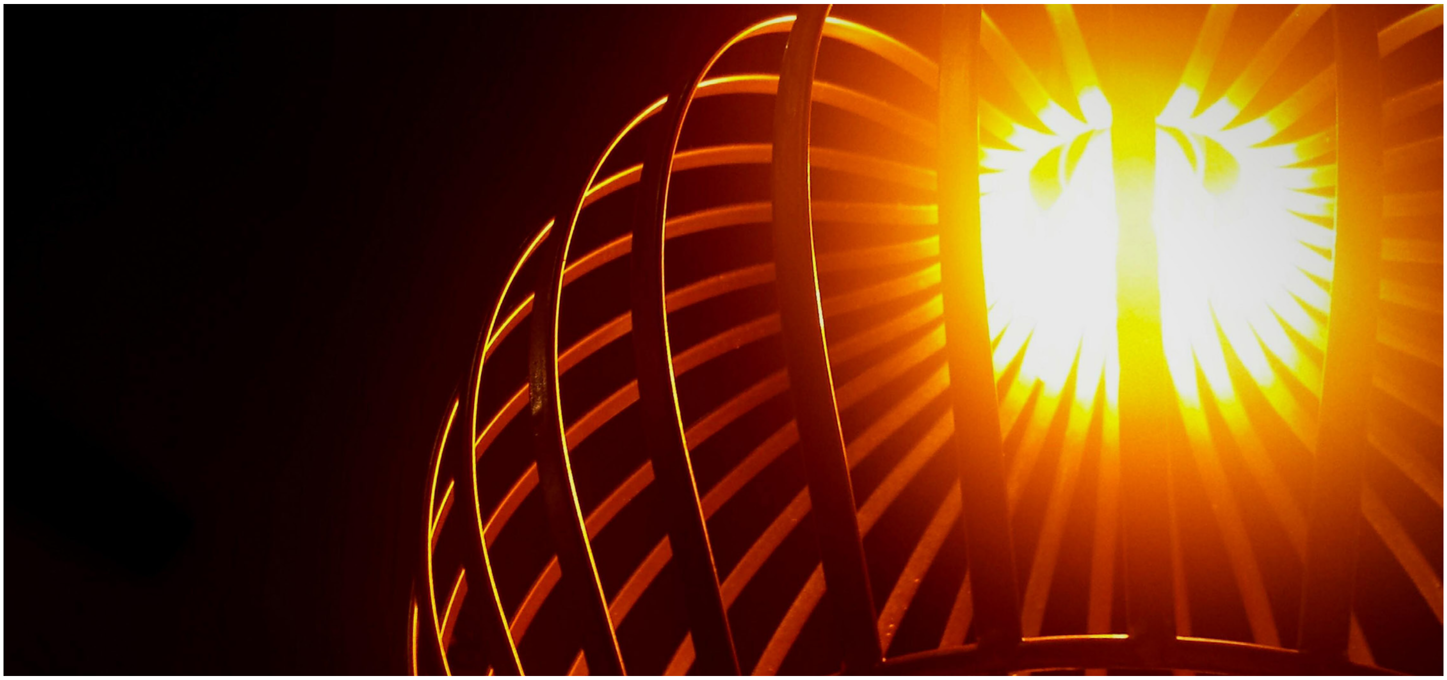

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Lease Accounting

Planning on Going Public? What You Need to Know About the Potential ASC 842 Implications

Background

Over the past several years, more and more companies have been going public, either via a traditional initial public offering (IPO) or a merger with a special-purpose acquisition company (SPAC). Regardless of how a company goes public, it may encounter certain complexities when complying with the presentation and disclosure requirements of the leasing guidance in ASC 842[1] as a public registrant.

This *Accounting Spotlight* discusses certain key accounting and financial reporting matters related to ASC 842 that an entity needs to consider when going public. Specifically, this publication focuses on accounting implications associated with:

- Determining the appropriate date by which the ASC 842 requirements must be applied to the public-company filing.
- Establishing the discount rate used to measure the leases as a public company.
- Applying the business combination model when an entity goes public by being acquired by or merging with a SPAC.

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

Entities that are considering going public must carefully evaluate their unique circumstances when assessing the relevant accounting and financial reporting implications. Such an evaluation may include (1) understanding the financial statements that must be included in any SEC filing, (2) determining the effective-date requirements that would apply if a private-company or nonissuer (i.e., a company that is not a public business entity [PBE]) adoption date was used for an accounting standard, and (3) reversing any private-company accounting alternatives that were previously elected. Entities should discuss the impact of the relevant accounting and reporting considerations with their accounting advisers when appropriate. In addition, entities may want to consider the interpretive guidance in Deloitte's Roadmap ***Initial Public Offerings***.

Determining the Appropriate ASC 842 Effective Date

The effective date of ASC 842 depends on which type of entity is applying the standard:

- *Public companies*[2] — Fiscal years beginning after December 15, 2018, and interim periods therein (i.e., January 1, 2019, for calendar-year-end companies).
- *Public not-for-profit (NFP) entities*[3] — Fiscal years beginning after December 15, 2019, and interim periods therein (i.e., January 1, 2020, for calendar-year-end NFP entities).
- *All other entities* — Fiscal years beginning after December 15, 2021, and interim periods thereafter (i.e., January 1, 2022, for calendar-year-end companies).

Because the ASC 842 effective date for PBEs differs from that for non-PBEs, entities that are going public often have questions about the implications of doing so when they have not yet adopted ASC 842 or have already adopted the standard by using a timeline other than that required for public companies.

The effect of ASC 842 adoption on an entity that is going public depends on whether the entity (1) qualifies as an emerging growth company (EGC) and has elected private-company adoption dates or (2) either does not qualify as an EGC or has not elected private-company adoption dates.

ASC 842 IPO Considerations for an EGC That Elected to Use Private-Company Adoption Dates

An EGC is a category of issuer that was established in 2012 under the JOBS[4] Act and was granted additional accommodations in 2015 under the FAST[5] Act. The less stringent regulatory and reporting requirements for EGCs are intended to encourage such companies to undertake public offerings. A private company undertaking an IPO will generally qualify as an EGC if it (1) "has total annual gross revenues of less than $1.07 billion during its most recently completed fiscal year" and (2) has not issued more than $1 billion of nonconvertible debt over the past three years.[6]

After going public, a registrant will retain its EGC status until the earliest of:

- The last day of the fiscal year in which its total annual gross revenues exceed $1.07 billion.
- The date on which it has issued more than $1 billion in nonconvertible debt securities during the previous three years.

[2] Public companies include PBEs and certain NFP entities and employee benefit plans as described in ASC 842-10-65-1(a).

[3] The deferral in FASB Accounting Standards Update (ASU) No. 2020-05, *Revenue From Contracts With Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, applies to public NFPs that have not issued financial statements or made financial statements available for issuance as of June 3, 2020. Public NFPs that have issued financial statements or have made financial statements available for issuance before that date must comply with the effective dates prescribed for public companies above.

[4] Jumpstart Our Business Startups.

[5] Fixing America's Surface Transportation.

[6] For more information about EGCs, see the SEC's Web site.

- The date on which it becomes a large accelerated filer (which is an annual assessment performed on the last day of the fiscal year on the basis of public float as of the end of the second fiscal quarter). To be considered a large accelerated filer, the registrant must have filed at least one annual report and must have been subject to the requirements of Sections 13(a) and 15(d) of the 1934 Act for at least 12 months. Accordingly, the registrant generally cannot be considered a large accelerated filer for its first Form 10-K filing as a public company.
- The last day of the fiscal year that includes the fifth anniversary of the date of the first sale of common equity securities under an effective Securities Act of 1933 registration statement for an EGC.

EGCs are not required to accelerate the adoption of new accounting standards and are allowed to adopt the new or revised accounting pronouncements as of the effective dates for private companies or nonissuers (i.e., non-PBEs), provided that such standards include a later effective date for nonissuers.

During an IPO, a company that qualifies as an EGC may elect to use the non-PBE adoption date for ASC 842, irrespective of whether the company has not yet adopted ASC 842 or has already adopted ASC 842 as of a date other than the required date for PBEs. For example, if an entity that qualifies as an EGC elects to defer adoption and adopted ASC 842 on January 1, 2020, it would not be required to push back the adoption date as part of its IPO.[7]

After an IPO, such an entity may continue to defer adoption to the date for nonpublic companies, but this election is only available as long as it qualifies as an EGC. Questions have arisen regarding the transition provisions that apply when an entity loses EGC status after the effective date for PBEs but before that for non-PBEs. As discussed in paragraph 10230.1 of the FRM, the SEC staff generally expects an EGC that loses its EGC status to comply with PBE requirements in the first filing after the loss of status. Further, the staff encourages EGCs to (1) review their plans for adopting accounting standards upon their loss of EGC status and (2) consult with the Division of Corporation Finance if they do not believe that they will be able to comply on a timely basis with the requirement to reflect new accounting standards.

The scenarios discussed below convey our general understanding of how an EGC that elected to defer adoption would reflect the new leasing standard after losing its EGC status. The general principle illustrated in the two scenarios below is that the SEC will not require an existing registrant that loses status to open up a previously reported audited year. The scenarios are not applicable once an EGC has fully adopted the ASC 842 requirements.

Scenario 1

Calendar-Year-End SEC Registrant Loses Its EGC Status on December 31, 2022

Assume that a registrant is a calendar-year-end EGC; has elected to take advantage of the extended transition provisions and adopt the new leasing standard by using private-company adoption dates; has elected the Comparatives Under 840 transition method; and loses its EGC status on December 31, 2022. We believe that the registrant should adopt the new leasing standard in its next filing after losing status on the basis of the guidance in paragraph 10230.1(f) of the FRM, which states, in part:

> Generally, if an EGC loses its status after it would have had to adopt a standard absent the extended transition, the issuer should adopt the standard in its next filing after losing status. However, depending on the facts and circumstances, the staff may not object to other alternatives.

[7] Although ASC 842 became effective for fiscal years beginning after December 15, 2021, and must be adopted for annual periods after the adoption date, nonpublic companies are not required to apply ASC 842 on a quarterly basis until quarters in fiscal years beginning after December 15, 2022. Because delayed adoption is permitted on a quarterly reporting basis under U.S. GAAP, the same principle holds true for EGCs that use the private-company adoption dates.

Scenario 1 (continued)

On the basis of the guidance outlined above, we believe that the SEC staff would not object if the registrant were to:

Adopt ASC 842:	For the annual period beginning on January 1, 2022.
First present the application of ASC 842 in its:	2022 annual financial statements included in its 2022 Form 10-K.
Present the application of ASC 842 in its selected quarterly financial data (SEC Regulation S-K, Item 302(a)) for its:	2022 quarterly periods in its 2022 Form 10-K. Further, we believe that the registrant should provide clear and transparent disclosures that the quarterly financial data presented in its 2022 Form 10-K do not mirror the information in its 2022 Forms 10-Q for the current year. Note that while the requirement in Item 302(a) only applies when a material retrospective change has occurred, the SEC clarified that a registrant's loss of EGC status would represent a retrospective change whose materiality would need to be evaluated because the registrant would adopt ASC 842 in the Form 10-K for "both the full fiscal year and interim periods within that fiscal year." See footnote 70 of SEC Final Rule No. 33-10890 for more information.
Present the application of ASC 842 in its quarterly interim financial statements for its:	2022 comparable quarterly periods presented in Forms 10-Q in 2023.

Scenario 2

Calendar-Year-End SEC Registrant Qualifies as an EGC on or After December 31, 2022

Assume the same facts as in Scenario 1 except that the registrant qualifies as an EGC through the end of the adoption date required for a non-PBE (i.e., through December 31, 2022) or later. We believe that, in such circumstances, the registrant could:

Adopt ASC 842:	For the annual period beginning on January 1, 2022.
First present the application of ASC 842 in its:	2022 annual financial statements included in its 2022 Form 10-K.
Present the application of ASC 842 in its quarterly interim financial statements for its:	2023 quarterly periods presented in Forms 10-Q in 2023. The registrant is encouraged, but not required, to present the 2022 comparable quarters under ASC 842 in its Forms 10-Q in 2023. If the registrant does not present the comparable quarters under the new standard, the SEC staff would expect the registrant to provide clear and transparent disclosures that the prior-period information is presented on a basis different from that of the current year.

Item 302(a) requires registrants to provide selected quarterly financial data when a material retrospective change has occurred. However, the SEC clarified that if a registrant qualifies as an EGC and adopts ASC 842 for the first time in its annual report on Form 10-K, the change would not be viewed as retrospective when the registrant provides disclosures in accordance with Item 302(a) because an EGC is permitted to use non-PBE adoption dates and ASC 842 permits non-PBEs to first adopt the new leasing standard in an annual period rather than an interim period.

As illustrated in the scenarios above, the loss of EGC status in 2022 will largely affect whether the adoption of ASC 842 needs to be reflected in the historical quarterly periods for 2022.

ASC 842 IPO Considerations for an Entity That Does Not Qualify as an EGC

At the July 29, 2020, CAQ SEC Regulations Committee Meeting, the SEC staff indicated that entities, other than EGCs, that undertake an IPO must apply the public-entity effective date and adoption requirements for all periods presented in the financial statements as well as for all accounting standards, including ASC 842. Therefore, a non-PBE that does not qualify as an EGC may be required to retrospectively change and accelerate its ASC 842 adoption date to that for PBEs, irrespective of whether the entity has already early adopted ASC 842 as a private company or was expecting to adopt the standard in the near term. The entity thus may need to use the judgments and assumptions that were in place at that time to push back the adoption date to the PBE effective date. For example, the entity will need to measure its leases by using the ASC 842 transition guidance as of the PBE effective date on the basis of the remaining lease payments, lease term, and discount rate that would have been in place at that time. Then, from that point forward, the entity will apply the ASC 842 guidance to all leases for which the entity made the transition to ASC 842 as of the application date and all new leases executed or modified after the application date.

Connecting the Dots

Adoption Timeline

Non-EGC private entities may want to consider how their timeline for a potential IPO may affect their plans related to adopting ASC 842 as well as any other new accounting standards. For example, a non-EGC calendar-year-end private entity that has elected to file an IPO after adopting ASC 842 (and after the required adoption date for PBEs) will be required to retrospectively adjust its financial statements and accelerate its adoption date to the PBE effective date. Accordingly, a non-EGC private entity that expects to undertake an IPO may consider early adoption on the basis of PBE adoption dates.

Scenario 1

Calendar-Year-End Private Company That Had *Not* Already Adopted ASC 842 Initiates an IPO in August 2022

Assume that Company A, a calendar-year-end private company that has not yet adopted ASC 842, undertakes an IPO in August 2022. Further assume that A does not qualify as an EGC and will be required to include annual financial statements for the years ended December 31, 2019, 2020, and 2021, in its Form S-1 registration statement filed with the SEC.

We believe that in such a scenario, A would be required to push back its ASC 842 adoption to January 1, 2019 (i.e., the effective date for PBEs).

Scenario 2

Calendar-Year-End Private Company That Had Already Adopted ASC 842 Initiates an IPO in March 2023

Assume that Company A, a calendar-year-end private company that has already adopted ASC 842 on January 1, 2022, undertakes an IPO in March 2023. Further assume that A does not qualify as an EGC and will be required to include annual financial statements for the years ended December 31, 2020, 2021, and 2022, in its Form S-1 registration statement filed with the SEC.

We believe that in such a scenario and in a manner similar to that in Scenario 1, A would be required to push back its ASC 842 adoption to January 1, 2019 (i.e., the effective date for PBEs). Therefore, A will need to retrospectively adjust its financial statements to reflect the impact of ASC 842 as if it were adopted on January 1, 2019; any leasing activity that occurred from that point forward would be subject to the ASC 842 requirements.

Scenario 2 (continued)

Note that this principle will hold true irrespective of when the private company undertakes its IPO. For example, to the extent that the difference will be material, when a calendar-year-end private company that does not qualify as an EGC decides to initiate an IPO in 2028, it will need to push back its adoption date to January 1, 2019, with the balances rolled forward to the periods included in the registration statement.

Establishing the Discount Rate Used to Measure a Lease

Entities that are going public often have questions about the impact of discount rates when they have either not yet adopted or have already adopted ASC 842. Specifically, such entities have asked whether they would be permitted to use or continue to use the private-company risk-free rate alternative if they qualify as an EGC. The short answer is no; PBEs are not permitted to use any private-company accounting alternatives when preparing their financial statements. Therefore, **all entities**, regardless of whether they qualify as an EGC, are required to reverse all private-company alternatives when preparing their public-company financial statements; accordingly, the lease would be remeasured by using the appropriate discount rate available for public companies (i.e., either the rate implicit in the lease if readily determinable or the incremental borrowing rate [IBR]).

It can be difficult for a company that is going public to determine the IBR when it lacks easy access to the information it needs to establish an appropriate IBR. More significant challenges may include the following:

- Re-creating the assumptions that would be in place if the adoption must be pushed back.
- Lack of history of creditworthiness and lack of industry-adopted tools related to quantitatively deriving a synthetic credit rating.
- Limited borrowings for the company.
- Access to relevant yield market data (e.g., Bloomberg, Capital IQ).
- Credit quality that is artificially inflated because of lack of debt.
- Limited or private borrowings in the form of revolvers, asset-based loans, or other debt facilities deemed to be overcollateralized.
- Lack of centralized treasury function that also affects foreign subsidiary leases.

In addition to these challenges, companies often have limited "in house" experience in capital markets, limiting their ability to develop the IBR themselves. Accordingly, companies frequently need to engage third-party valuation specialists to assist in this effort.

The sections below address two of the more challenging aspects of establishing the discount rate used to measure a lease.

Considerations Related to the Risk-Free Rate

There are certain accounting alternatives for private companies under U.S. GAAP, one of which is the use of a risk-free rate to classify and measure leases under ASC 842. Some companies that are going public may have already elected to use a risk-free rate when adopting ASC 842 to reduce some of the cost and complexity of applying the requirements. While the use of a risk-free rate may be appropriate for lessees that are not PBEs, public companies cannot employ this rate since the use of private-company accounting alternatives is not permitted for PBEs. Therefore, once a company (even if it qualifies as an EGC) is considered a PBE, it is **no longer permitted** to use a risk-free rate when classifying and measuring its leases under ASC 842. As a result, the use of the risk-free rate, as well as any other previously elected private-company alternatives, would need to be retrospectively eliminated from the company's historical financial statements before such statements can be included in its IPO registration statement.

Connecting the Dots

Use of a Risk-Free Rate When There Is a Plan to Go Public

To avoid having to reverse the risk-free rate election or any other private-company alternative accounting policies, an entity should avoid using such alternatives if it expects that it may undergo an IPO or that its financial statements may be included in another company's IPO in the future. Accordingly, such an entity will not need to retrospectively undo all of these elections as part of the IPO process.

Considerations Related to Determining the IBR

Lessors are required to use the rate implicit in the lease (RIIL). Lessees are similarly required to use the RIIL if it can be readily determined. In determining the RIIL, a lessee needs to know several assumptions **used by the lessor** in pricing the lease, including the underlying asset's fair value, the estimated residual value of the underlying asset at the end of the lease, and any initial direct costs deferred by the lessor. In most cases, this information is not readily available to the lessee. When the RIIL in the lease cannot be readily determined (which we expect to generally be the case), the lessee should use its IBR, which is the rate that the lessee would pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term.

While there is no prescribed approach to estimating a company-specific IBR, there are a number of factors to consider. The entity should analyze its credit quality to form a basis for developing appropriate borrowing rates. In addition, the entity should consider the fact that the rates used must reflect a secured, or collateralized, cost of borrowing. For most entities, a curve reflecting secured borrowing rates for varying tenors will need to be developed so that suitable rates can be applied to leases with different remaining lease terms. ASC 842 specifies that the rate used should reflect a collateralized borrowing that covers the lease payments over the lease term. Accordingly, one common approach — often referred to as the notching approach — would be to develop an interest rate curve that takes into account the entity's credit quality, with an additional adjustment to reflect the impact of collateral.

Subsidiaries may not necessarily default to using rates that reflect their parents' credit standing. Generally speaking, a subsidiary should only take its parent's credit into account if the parent guarantees the lease or the lessor otherwise had reason to consider the parent's credit when negotiating the lease. Accordingly, the organizational structure may necessitate separate consideration of the credit quality of certain subsidiaries in addition to that of the parent. Further, if a company is party to leases denominated in foreign currencies, the company will need to consider making additional adjustments to the established base rates to reflect any applicable currency or political risks in each jurisdiction. Multinational companies are likely to have various IBR curves that reflect different combinations of credit, currency, and political risks to be applied to leases on the basis of their key characteristics.

An entity will need to use judgment and consider multiple factors to determine an appropriate IBR. Some entities will start with a base rate that reflects general factors (e.g., overall economic conditions, currency volatility, and the broad interest rate environment for various types of securities and terms) and then will adjust for entity-specific factors (e.g., credit risk). Other entities may begin with bond rates that already incorporate a credit factor. In all cases, characteristics like lease term/tenor, level of indebtedness, payment structure and timing, and parent/subsidiary structure should be considered. Entities need to apply an adjustment for full collateralization that reflects the liquidity of the collateral chosen (e.g., the more liquid the collateral, the larger the potential adjustment to the rate). In this respect, the assumed collateral **does not** need to be the asset subject to the lease; rather, it should be collateral that a lender would accept as being at least as liquid as the leased asset.

Although the determination of the IBR can be highly complex and vary significantly from one business to the next, companies that have the right tools, data, and experience can greatly streamline this process. For more information, including responses to FAQs on this topic, see Deloitte's *Demystifying the New Leasing Standard: How to Determine Your Discount Rate for Lease Measurement*.

Accounting for Leases Recognized as Part of a SPAC Transaction

One of the methods of going public is executing a merger with a SPAC. A SPAC is a newly formed company that raises cash in an IPO and uses that cash or the equity of the SPAC, or both, to fund the acquisition of a target. After a SPAC IPO, the SPAC's management looks to complete an acquisition of a target within the period specified in its governing documents (e.g., 24 months). In many cases, the SPAC and target may need to secure additional financing to facilitate the transaction. For example, they may consider funding through a private investment in public equity (PIPE), which will generally close contemporaneously with the consummation of the transaction. If an acquisition cannot be completed within the required time frame, the cash raised by the SPAC in the IPO must be returned to the investors and the SPAC is dissolved (unless the SPAC extends its timeline via a proxy process). See Deloitte's October 2, 2020 (updated April 11, 2022), *Financial Reporting Alert* for guidance on entering into a SPAC transaction as an alternative to undertaking a traditional IPO.

Since a SPAC IPO depends on the acquisition of a target entity, this acquisition may be subject to the guidance in ASC 805. In a SPAC transaction, it is necessary to determine which entity is the accounting acquirer and which is the accounting acquiree. The discussion below only applies to situations in which the SPAC is the accounting acquirer and the target operating company is the accounting acquiree.

Leases (including contracts that contain a lease) acquired in a business combination may result in the recognition of various assets or liabilities, depending on the classification of the lease and whether the acquiree is the lessee or the lessor under the lease contract. In addition, ASC 805 includes certain requirements related to accounting for leases and lease-related balances. See Deloitte's Roadmap *Business Combinations* for more information.

Lease Classification

As indicated in ASC 842-10-55-11, an acquirer in a business combination should retain the acquiree's classification of its leases unless "there is a lease modification and that modification is not accounted for as a separate contract."

The ASC master glossary defines a lease modification as follows:

> A change to the terms and conditions of a contract **that results in a change in the scope of or the consideration for a lease** (for example, a change to the terms and conditions of the contract that adds or terminates the right to use one or more underlying assets or extends or shortens the contractual lease term). [Emphasis added]

As part of a business combination, a lease might be changed in ways that do not qualify as a lease modification. For example, a lease may be changed to reflect the new owner of the acquiree. Such a change in the name of one of the parties identified in the contract would not qualify as a lease modification without a change in the scope of or consideration for the lease.

An entity must carefully consider whether the lease has been modified, thereby resulting in a reassessment of the lease classification.

Lease Term and Purchase Options

Leases acquired as part of a business combination are accounted for similarly to new leases, with one exception: lease classification is not reassessed for leases acquired in a business combination (see above). As a result, in a manner similar to the accounting for new leases, the acquirer must determine the lease term as of the acquisition date. Accordingly, whether a renewal period is factored into a lease term depends on whether the acquirer concludes that it is reasonably certain that the renewal option will be exercised. Similarly, whether the period after a termination option is factored into the lease term depends on whether it is reasonably certain that the termination option will not be exercised. Further, the acquirer must assess whether it is reasonably certain that it will exercise or not exercise any available purchase option. An acquirer's assessment of whether it will be reasonably certain to exercise a renewal, termination, or purchase option is made as of the acquisition date. This assessment is based on the acquirer's own evaluation and is not affected by what the acquiree assumed as of the original lease commencement date.

As a reminder, if the acquiree (at lease commencement) and the acquirer (on the acquisition date) reach different conclusions about the likelihood of exercising an option to extend the lease term, terminate the lease, or purchase the underlying asset, the classification of the acquired lease does not change unless the lease is modified and the modification is not accounted for as a separate contract.

Prepaid and Accrued Amounts

Assets or liabilities for prepaid or accrued rent, as well as unamortized lease incentives and initial direct costs, are not recognized under ASC 805 regardless of whether the acquiree is the lessee or the lessor in a lease. This notion is consistent with paragraph BC415 of ASU 2016-02,[8] which states, in part:

> The acquiree's right-of-use asset should be measured at the amount of the lease liability, adjusted for any off-market terms (that is, favorable or unfavorable terms) present in the lease. Prepaid or accrued rent should not be recognized [in a business combination] because such amounts do not meet the definition of an asset or a liability in Concepts Statement 6 under the acquisition method of Topic 805, Business Combinations. Instead, the remaining lease payments required under the terms of the lease are considered in evaluating whether the terms of the lease are favorable or unfavorable at the acquisition date.

Although the prepaid and deferred amounts are not recognized for an acquired lease, the remaining lease payments may be more or less than they would be for a new lease of the property with the same remaining term. As a result, the lease may be above or below market as of the acquisition date, which will affect the required recognition of amounts related to any favorable or unfavorable terms.

Acquiree Is a Lessee

When the acquiree is a lessee, certain assets and liabilities may result from the initial measurement of the acquired leases. Right-of-use (ROU) assets and lease liabilities arising from an acquiree's operating or finance leases are exceptions to ASC 805's recognition and fair value measurement principles. Instead, ROU assets and lease liabilities are recognized and measured in accordance with ASC 842, though the acquirer would adjust the measurement of the ROU asset for acquired leases for any favorable or unfavorable terms. In addition, an acquirer may need to recognize and measure at fair value certain lease-related intangible assets or liabilities. For example, the acquirer may need to recognize an intangible asset for an in-place lease; such balances would be recognized separately in the financial statements and would not be combined with other lease-related assets or liabilities (e.g., they would not be combined with lessee ROU assets). In addition, the acquirer may need to recognize acquired leasehold improvements that were previously owned by the acquiree; these assets would be recognized at their acquisition-date fair value.

Moreover, the acquirer may elect — as an accounting policy election by class of underlying asset and for all of the entity's acquisitions — not to recognize assets or liabilities as of the

[8] FASB Accounting Standards Update No. 2016-02, *Leases (Topic 842)*.

acquisition date for leases that, as of the acquisition date, have a remaining lease term of 12 months or less.

Acquiree Is a Lessor

Certain assets and liabilities may also result from the initial measurement of acquired leases when the acquiree is a lessor. If the acquiree is the lessor in an operating lease, the acquirer will generally recognize (1) property subject to the lease, (2) intangible assets for favorable or unfavorable terms, (3) leasehold improvements owned by the acquiree, (4) intangible assets for an in-place lease, and (5) intangible assets for customer relationships. When the acquiree is the lessor in a sales-type or direct financing lease, the acquirer will generally recognize (1) the net investment in the lease, (2) intangible assets for an in-place lease, and (3) intangible assets for customer relationships.

Other Resources

For a more in-depth discussion and analysis of the issues presented in this *Accounting Spotlight* or the application of the new leasing standard's requirements as a whole, see Deloitte's Roadmaps *Initial Public Offerings*, *Business Combinations*, and *Leases*.

In addition, if you have questions about the new leasing standard or need assistance with interpreting its requirements, please contact any of the following Deloitte professionals:

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