Working Draft:

Note 2: Significant Accounting Policies

Proposal to add a subsection for leases as follows:

***Leases*[1]**

The Company recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Company is a lessee in several noncancellable operating leases, for office space, computers and other office equipment. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of our leases are not readily determinable and accordingly, we use our incremental borrowing rate[2] based on the information available at the commencement date for all leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.[3]

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[1] This illustrative example assumes the Company has operating leases only. For information regarding the transition approach, the cumulative effect recorded at adoption, the practical expedients, impairment of the right-of-use asset, finance leases, as well as lessor accounting and disclosures, among others, please refer to Appendix F "The New Leases Standard: FASB ASC 842."

[2] If the Company is a subsidiary and the pricing of its leases is significantly influenced by its parent's credit, additional considerations may be required to determine the incremental borrowing rate of the Company. Generally, it is not appropriate to assume the Company's incremental borrowing rate is the same as its parent's because the two entities likely do not have the same credit risk profile.

[3] Companies should consider whether additional disclosure is required if there were any significant assumptions and judgments including how the Company determines (1) whether a contract contains a lease (2) the allocation of the consideration in a contract between lease and nonlease components and (3) the discount rate for the lease, in accordance with ASC 842-20-50-3c.

The Company has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. We recognize lease cost associated with our short-term leases on a straight-line basis over the lease term.

The Company made an accounting policy election by class of underlying asset, for computers and other office equipment, to account for each separate lease component of a contract and its associated non-lease components (lessor-provided maintenance) as a single lease component.

Note 17

***Leases*[4]**

The Company has obligations as a lessee for office space, computers, and other office equipment with initial noncancelable terms in excess of one year. The Company classified these leases as operating leases. These leases generally contain renewal options[5] for periods ranging from two to five years. Because the Company is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments. The Company's leases do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus, for many of the Company's leases, variable payments. The Company's office space leases require it to make variable payments for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

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[4] Individual facts and circumstances could differ based on activities of a SEC registered broker-dealer. Therefore, the following may not reflect all disclosures required in FASB ASC 842 under accounting principles generally accepted in the United States of America, including but not limited to:

- Existence and terms and conditions of residual value guarantees provided by the lessee (ASC 842-20-50-3(a)(4))
- Leases that have not yet commenced but create significant rights and obligations for the lessee, including the nature of any involvement in the construction or design of the asset (ASC 842-20-50-3(b))
- Finance leases, subleases and sale-and-leaseback transactions (ASC 842-20-50-3 and -4)
- Judgments made if the allocation of the consideration in a contract between lease and nonlease components is required (ASC 842-20-50-3(c)(2))
- Disclosures applicable when a lessee accounts for short-term leases in accordance with paragraph 842-20-25-2 and the short-term expense for the period does not reasonably reflect the lessee's short-term lease commitments (ASC 842-20-50-8)
- Amount of lease costs capitalized as part of the cost of other assets (ASC 842-20-50-4)

Consideration should be given to all facts and circumstances that could require further enhancements to disclosures regarding significant judgments and estimates made by the Company.

[5] The Company should assess whether it is reasonably certain, based on all contractual, economic and regulatory factors, that it will exercise one or more renewal periods. While past practice is not determinative, a history of exercising renewal options may be indicative of factors that result in an economic compulsion for the Company to renew its leases.

The components of lease cost for the year ended December 31, 20X1 are as follows:

Operating lease cost[6]	$ 1,550
Variable lease cost	130
Short term lease cost	380
Total lease cost	2,060

Amounts reported in the consolidated balance sheet as of December 31, 20X1 were as follows[7]:

Operating leases:	
Operating lease ROU assets	$ 6,010
Operating lease liabilities	6,125

Other information related to leases as of December 31, 20X1 was as follows:

Supplemental cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	$ 1,519
ROU assets obtained in exchange for lease obligations:	
Operating leases	$ 750
Reductions to ROU assets resulting from reductions to lease obligations:	
Operating leases	$ (125)
Weighted average remaining lease term:	
Operating leases	3.5 years
Weighted average discount rate:	
Operating leases	4 %

Amounts disclosed for ROU assets obtained in exchange for lease obligations and reductions to ROU assets resulting from reductions to lease obligations include amounts added to or reduced from the carrying amount of ROU assets resulting from new leases, lease modifications or reassessments.

Maturities of lease liabilities under noncancellable operating leases as of December 31, 20X1 are as follows:

20X2	$ 1,492
20X3	1,440
20X4	1,006
20X5	982
20X6	901
Thereafter	1,164

[6] Operating lease cost determined in accordance with paragraphs 842-20-25-6(a) and 842-20-25-7.

[7] If a lessee does not present operating lease right-of-use assets and lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those right-of-use assets and lease liabilities (ASC 842-20-45-2)

Total undiscounted lease payments	$ 6,985
Less imputed interest	(860)
Total lease liabilities	$ 6,125

The Company leases certain office space from its parent. The lease is for an initial five-year term expiring in 20X4 with annual renewals unless cancelled by either party thereafter. It has been classified as an operating lease and is included in the data presented above. The total lease cost associated with this lease for the year ended December 31, 20X1 was $700 and was included in [Statement of Income caption].

Comments should be received by October 25, 2019, and sent by electronic mail to Irina Portnoy at Irina.Portnoy@aicpa-cima.com.