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LETTER OF COMMENT NO. 5



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File Reference: Proposed FSP FAS 157-a

Proposed FASB Staff Position No. 157-a, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions"

Dear Mr. Golden:

We are pleased to comment on the above mentioned proposed Financial Accounting Standards Board (FASB or the Board) Staff Position No. 157-a, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions" (the proposed FSP). We recognize that issues related to the interaction between FASB Statement No. 13, Accounting for Leases (Statement 13), and its related interpretations and FASB Statement No. 157, Fair Value Measurements (Statement 157), could result in changes to existing lease accounting that have not been fully considered by the FASB. Ernst & Young generally supports the issuance of the proposed FSP given the change in the definition of fair value between the Exposure Draft and the final issuance of Statement 157. We agree with the Board's view (as espoused in the proposed FSP) that it would not be prudent to change valuation practices common within the leasing industry without appropriate consideration by the Board, including a comprehensive reconsideration of the accounting for leasing transactions.

As such, subject to our comments below, we support issuance of the proposed FSP in final form.

## Additional Comments

The proposed FSP would amend Statement 157 to specifically exclude Statement 13 and "its related interpretative accounting pronouncements that address leasing transactions." While we appreciate the intent of proposed paragraph 2(c), we have concerns that, as written, this paragraph could lead to diversity in practice with respect to its application. Paragraph 8(b) of the proposed FSP identifies certain pronouncements related to leasing transactions that would be excluded from the scope of Statement 157 subsequent to the issuance of the proposed FSP. However, it may be unclear to some whether the FASB intended to exclude the application of

Statement 157 when accounting for lease transactions that fall under other pronouncements within the scope of Statement 157. Examples include, but are not limited to:

- Lessee accounting for assets under capital lease pursuant to FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets,
- Lessee accounting for an operating lease pursuant to FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, and
- Accounting for acquired leases in a business combination pursuant to FASB Statement No. 141 (R), Business Combinations.

Similar issues may arise in other authoritative literature (e.g., EITF Issues). In order to avoid confusion and potential diversity in application, we suggest that the proposed FSP clearly communicate when the provisions of Statement 157 would or would not be applied in the determination of fair value measurements associated with lease transactions.

In addition, we are concerned that the Board's decision to retain the term *fair value* in Statement 13 and its related interpretative accounting pronouncements could serve to increase the complexity in GAAP that Statement 157 sought to reduce by providing a singular definition of fair value. As such, we would encourage the Board to consider renaming the measurement objective in Statement 13 and its related interpretative accounting pronouncements in order to distinguish these measurements from fair value.

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

Ernst + Young LLP