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Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Re: August 17, 2010 Exposure Draft on the Proposed Accounting Standards Update to *Leases (Topic 840)* [File Reference No. 1850-100]

Dear Board Members:

I appreciate the opportunity to comment on the Exposure Draft on the Proposed Accounting Standards Update to *Leases (Topic 840)* (the "Exposure Draft"). I support the Boards' efforts to improve the transparency of accounting and disclosures related to leases and commend the members of the Boards for their thoughtful consideration of the myriad issues involved. Nonetheless, I have some concerns with certain aspects of the Exposure Draft that I believe warrant further discussion. My comments are directed at those provisions of the Exposure Draft that I believe would increase complexity and confusion while providing limited transparency to financial statement users.

Question 2: Lessors

(a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

I do not believe lessors should have two approaches based on their qualitative and unilateral assessment of whether they retain exposure to significant risks or benefits. Essentially, this proposed accounting retains the very notion of operating vs. capital lease accounting that the Exposure Draft seeks to eliminate from lessee accounting, while changing the determining factors from quantitative tests to a qualitatively subjective assessment. Since it does not appear that the Exposure Draft requires the financial statements of lessees to include underlying assets or their related depreciation, those portions of underlying assets that are derecognized by lessors would not appear on any financial statements.

A more consistent approach would be to require lessors to retain the underlying assets and the related depreciation on their balance sheet until and unless a sale transaction is completed. The level of risks and benefits retained could be a required footnote disclosure.

(b) Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

I believe the performance obligation approach should be used in all circumstances if the concept of capital leases is eliminated from lessee accounting. The footnote disclosures could inform readers of the financial statements of the level of remaining obligations of the lessor, as stated in (a) above.

I question the Boards' proposal in paragraph 37(b) of the Exposure Draft that the lessor base subsequent measurement of the lease liability on the pattern of use of the underlying asset by the lessee, if such can be reliably determined. If it cannot, the Boards propose that the lessor uses a straight-line method of reducing the liability. Since the lease payments are earned by the lessor in equal installments over the life of the lease, I do not see why it would make sense for the lessor to recognize lease income based on the use by the lessee. The lessor is obligated to provide an asset to the lessee for the course of the lease term, for the lessee to use as desired. The lessee's pattern of use of the asset varies over the lease term does not affect the lessor's obligation. I could understand the proposed approach if payments to the lessor were based on the lessee's pattern of use, but that is not the usual case in leases, and that is not a criterion specified in paragraph 37(b). I could also understand if the proposal related to how the lessor should record depreciation on the underlying asset, but again that is not the case. Thus I suggest that the lessor reduce the liability on a straight-line basis unless the pattern of lease payments is tied to the use of the asset.

(c) Do you agree that there should be no separate approach for lessors with leveraged leases, as is currently provided for under US GAAP (paragraph BC15)? If not, why not? What approach should be applied to those leases and why?

I concur with the boards' proposal to eliminate leveraged lease accounting in the new leasing model.

Question 3: Short-Term Leases

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

I agree with the Boards' proposal to allow companies to choose simplified accounting for short-term leases given cost-benefit considerations. However, rather than allowing companies to choose to apply the simplified accounting on a lease-by-lease basis, companies should be required to adopt a policy whereby they use the simplified accounting for short-term leases on an all or nothing basis. This would preclude the possibility of companies making the decision on a particular short-term lease to influence the outcome of operating income or interest expense.

I also recommend that the final pronouncement clarify where in the income statement the lease payments would appear. While presumably the Boards' intention is that lease payments would be an operating expense, it does not appear that the Exposure Draft states this explicitly.

Question 6: Contracts that contain service components and lease components

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

I strongly suggest that the FASB approach be used in cases in which the service and lease components are not distinct, which would mean that both the lessor and lessee would apply the lease accounting requirements to the combined contract.

The IFRS approach for a lessor that uses the derecognition approach would introduce a great deal of subjectivity without being useful to financial statement users. If the service and lease components have been determined not to be distinct, it does not seem logical to then require a lessor to assign relative fair values of each as of the date of inception.

Question 7: Purchase options

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

I agree that there should be no accounting of a purchase option until exercised, assuming it is not a bargain purchase option, but there should be footnote disclosure of the significant terms of the purchase option. I agree with the Boards' conclusion in paragraph BC64 that exercise of a purchase option effectively terminates the lease. If one views a purchase option in that manner, then it is logical to treat the purchase option differently than an option to extend the lease. While the latter may factor into the calculation of the length of the lease, the purchase option does not. The decision to extend the lease is separate from the decision of whether to exercise the purchase option. The purchase option itself does not extend the lease term; the length of the lease term is reflected in the number of options to extend the lessee exercises or does not exercise.

Accounting for purchase options only when exercised is also supported by the basic requirements of the definition of an asset, in that a probable future benefit must result from a past transaction. Until the purchase option is exercised, the ownership of the underlying asset is only a potential future transaction, thus there should be no accounting for the purchase option or the underlying asset prior to then.

I agree with the Boards' retention of the concept of bargain purchase options in determining whether a transaction is a lease or purchase.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

The proposal in paragraphs 13-14 and 34-35 of the Exposure Draft that the lessee and lessor would each make a determination of "longest possible term that is more likely than not" to occur based on a probability-weighted expected outcome approach would result in asymmetrical accounting between lessee and lessor, something this Leasing project proposed to reduce from prior guidance.

It is also likely that there would be a negative cost-benefit in using this method, given the cost of the time to gather data to formulate the potential outcomes, assign probabilities, and then have the assumptions and calculation audited, vs. the unreliability of the resulting calculation. The complexity of the calculation could provide financial statement users with a false sense of precision, while the subjectivity opens up management and the company's auditors to inevitable second-guessing if the actual outcomes are not as predicted.

The probability-weighted method could result in a lease term that is not specified in the contract. For example, a five-year lease with a five-year optional term in which the company weights each alternative equally would result in a lease term of 7.5 years even though the lease could not possibly terminate in 7.5 years. This type of result could provide confusion rather than transparency to users of the financial statements. While I know the concern over this possibility was considered extensively by the Boards while drafting the provisions Exposure Draft, I ask the Boards to revisit this issue and reconsider whether using a 7.5 year lease term would provide decision usefulness to financial statement readers.

Instead, I propose the guidance simply require the longest possible term given the purchase options in the lease, and include disclosures to explain that a shorter term may occur.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

The proposed use of an expected outcome technique in determining the measurement of contingent rents and payments under term option penalties and residual value guarantees raises the same concerns over cost and subjectivity without user benefit as described in my response to Question 8 above.

I suggest that contingent rents and payments under term option penalties and residual value guarantees be included in the measurement for both lessees and lessors when they are probable of occurring. Footnote disclosure should be made of amounts and timing of payments, and to state whether each is included in the measurement of the lease assets and liabilities.

Once again, I appreciate the opportunity to offer comments on the Exposure Draft, and I thank you for your consideration.

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