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Technical Director, File Ref. No. 1850-100 Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

RE: Proposed Accounting Updates for Lease Accounting; Topic 840

Dear Board Members:

To begin, I would like to thank you for the opportunity to comment on the August 2010 Exposure Draft addressing newly proposed changes to accounting for leases. I would also like to offer a brief introduction; as an accounting student pursuing my Master of Science in Accounting at the Seidman College of Business, I have studied accounting issues in considerable depth. Hopefully the Board can gain some insight from my opinions. I disagree with the requirements set forth in the Exposure Draft and will use this letter to highlight my concerns with the proposed changes:

- 1. Topic 840 will have on balance sheets; a secondary result of this is the effect upon leverage and debt covenants
- 2. This proposal is detrimental to the investor
 - The proposed changes do not accurately account for a company's ability to exit a leasing arrangement
- 3. The cost of implementing this standard change greatly outweighs the benefit the intended parties
- 1. Topic 840 calls for what are now considered operating leases to be accounted for as an increase in assets (the leased property) and a related increase in liabilities (the lease commitment) on the lessee's balance sheet. This serves little purpose other than to inflate the size of balance sheets for all companies currently engaged in operating leases. A lease agreement presently accounted for according to Generally Accepted Accounting Principles still reflects an appropriate value to the users of financial statements. A lease is capitalized if capital in nature and an operating lease is accounted for as an expense to the lessee, which is disclosable in the financial statement footnotes. Investors can clearly see that a company is engaged in leasing and also judge the extent of these engagements using present financial statement information. Moving leasing an activity that does not actually represent an asset addition to the balance sheet does not improve the quality of financial statements in the way that the Exposure Draft intends.

In addition, building off of the above phenomenon of inflated balance sheet figures, this proposal will have an immediate effect on the leverage of many lessee companies. This unintended and undesirable effect will force some companies into violation of debt covenants overnight. Such a violation will have a negative effect on performance across a spectrum of companies, regardless of size, because of narrowed access to debt financing. Of course, the effect will be felt most by smaller firms with limited access to other avenues of outside financing other than debt. To make an argument that these leverage components are presently buried and not shown is flawed, per the discussion above one can see that lease arrangements should not be a component of a firm's balance sheet, and by extension, should not be a component of that firm's leverage.

- 2. The next issue I wanted to discuss was the effect this proposal will have on investors. According to the Board's own website, "Our goal is to set accounting standards that produce financial information useful in helping investors decide whether to provide resources to a company, and whether the management of that company has made good use of the resources it already has." As alluded to in the previous section, this standard change creates what I consider to be an inflated balance sheet figure. A leasing arrangement is not an addition in assets, and can be exited at any time by the lessee. In the Exposure Draft, the Board makes reference to accounting for the value of the lease by, "taking into account the effect of any options to extend or terminate the lease." (Page 2) It is implied then, that the lessee will always accept the extension option. This also fails to account for early termination, which while potentially accompanied by a fee to the lessee, can ultimately be a much smaller cost to them than the asset they are forced to recognize under Topic 840 changes. Investors gain a greater benefit from financial statements that reflect the expense of a lease rather than an asset increase of the estimated value of an agreement that can be exited at any time.
- 3. This proposal causes a myriad of problems without producing any true benefit to the end users of financial information. As with most accounting changes, the cost burden is going to be felt mostly by smaller companies with minimal accounting staff. Some other comment letters have mentioned that a number of firms do not maintain the accounting manpower to easily adjust to such changes. In the preceding sections I have described the flaws in this standard. Topic 840 fails to improve clarity of financial statements and does not bring any substantial benefit to the firms affected or their investors; the costs are heavy and clearly outweigh the intended benefits of this standard.

If the change to lease accounting were to improve the relevance or reliability of financial statements in any way, then my argument might change; I am resistant to make changes to accounting standards without a clear benefit for doing so. I would like to thank the Board for your time, and ask that you please take this letter into consideration when making a final decision on this topic.

Sincerely,

John R. Frawley