FASB Leases - Topic 842

Date of Entry: 8/8/2013

Respondent information

Type of entity or individual:

User

Contact information:

1.

Organization: Iberia Capital Partners

Name: Robert MacKenzie

Email address: robert.mackenzie@iberiabank.com

Phone number:

Questions and responses

an asset (the underlying asset) for a period of time in exchange for consideration." An entity would determine whether a contract contains a lease by assessing whether: 1. Fulfillment of the contract depends on the use of an identified asset.2. The contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an asset if the customer has the ability to direct the use and receive the benefits from use of the identified asset. Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would

determine whether a contract contains a lease? Why or why not? If not, how would you define a lease? Please supply specific fact patterns, if any,to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not

This revised Exposure Draft defines a lease as "a contract that conveys the right to use

reflect the economics of the transaction.

This definition is too strict. In cases where the physical functioning of the asset is controlled by the owner of the asset as part of delivering a service, it should not be considered a lease. A prime example is the offshore drilling industry. In that case, drilling rigs are chartered by oil & gas companies typically on a fixed daily rate for a period of time. While the contractor directs the contractee where to drill, the actual operations consitute a service that utilizes the asset.

This revised Exposure Draft would require an entity to recognize assets and liabilities arising from a lease. When assessing how to account for a lease, a lessee and a lessor would classify a lease on the basis of whether a lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset. This revised Exposure Draft would require an entity to apply that consumption principle by presuming that leases of property are Type B leases and leases of assets other than property are Type A leases, unless specified classification criteria are met. Those classification criteria are different for leases of property and leases of assets other than property to reflect the different natures of property (which often embeds a land element) and assets other than property. The Boards acknowledge that, for some leases, the application of the classification criteria might result indifferent outcomes than if the consumption principle were to be applied without additional requirements. Nonetheless, this revised Exposure Draft would require an entity to classify leases by applying the classification criteria in paragraphs 842-10-25-5 through 25-8 to simplify the proposals.Lessee AccountingA lessee would do the following: 1. For all leases, recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments (except if a lessee elects to apply the recognition exemption for short-2. For Type A leases, subsequently measure the lease liability on an amortized cost basis and amortize the right-of-use asset on a systematic basis that reflects the pattern in which the lessee expects to consume the right-of-use asset's future economic benefits. The lessee would present the unwinding of the discount on the lease liability as interest separately from the amortization of the right-of-use asset. 3. For Type B leases, subsequently measure the lease liability on an amortized cost basis and amortize the right-of-use asset in each period so that the lessee would recognize the total lease cost on a straight-line basis over the lease term. In each period, the lessee would present a single lease cost combining the unwinding of the discount on the lease liability with the amortization of the right of use asset.Lessor AccountingA lessor would do the following: 1. For Type A leases, derecognize the underlying asset and recognize a lease receivable and a residual asset. The lessor would recognize both a. The unwinding of the discount on both the lease receivable and of the following: the residual asset as interest income over the lease term b. Any profit relating to the lease (as described in paragraph 842-30-30-7) at the commencement date.2. For Type B leases (and any short-term leases if the lessor elects to apply the exemption for shortterm leases), continue to recognize the underlying asset and recognize lease income over the lease term, typically on a straight-line basis.Question 2: Lessee AccountingDo you agree that the recognition, measurement, and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

3. Do you agree that a lessor should apply a different accounting approach to different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

I believe these changes would harm investors in the following ways:complicating revenue recognition; reducing transparency; obscuring comparisons between companies; and introducing too much accounting discretion into reported results.

I highly recommend you do not change lease accounting for offshore drilling rigs as it will materially harm investors.

Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Current revenue recognition for the offshore drilling industry is very simple and understood today by all financial statement users.

A rig earning a \$400,000/day rate that works for 30 days will record \$12 million in monthly revenue.

Under the proposed rule change, revenue will be recorded in at least three different places on the income statement; total revenue (and thus net income) will differ from month to month as the present value of the lease receivable is accreted into interest income; depreciation will be discontinued (due to the rig asset having been removed from fixed assets); and last but not least, a gain will be recorded on day one of a contract to recognize the difference between the fair market versus book value of the rig being contracted. While accounting for this will be very difficult, attempting to forecast and/or model future revenues and thus net income will be virtually impossible.

I highly recommend you do not change lease accounting for offshore drilling rigs as it will materially harm investors.

5. This revised Exposure Draft would require that a lessee and a lessor measure assets and liabilities arising from a lease on a basis that:1. Reflects a lease term determined as the noncancellable period, together with both of the following: a. Periods covered by an option to extend the lease if the lessee has a significant economic incentive to exercise b. Periods covered by an option to terminate the lease if the lessee has a significant economic incentive not to exercise that option.2. Includes fixed lease payments and variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate) but excludes other variable lease payments unless those payments are in-substance fixed payments. The lessee and lessor would measure variable lease payments that depend on an index or a rate using the index or rate at the commencement date. A lessee would reassess the measurement of the lease liability, and a lessor would reassess the measurement of the lease receivable, if either of the following occurs: 1. There is a change in relevant factors that would result in a change in the lease term (as described in paragraph 842-10-55-5). 2. There is a change in an index or a rate used to determine lease payments. Question

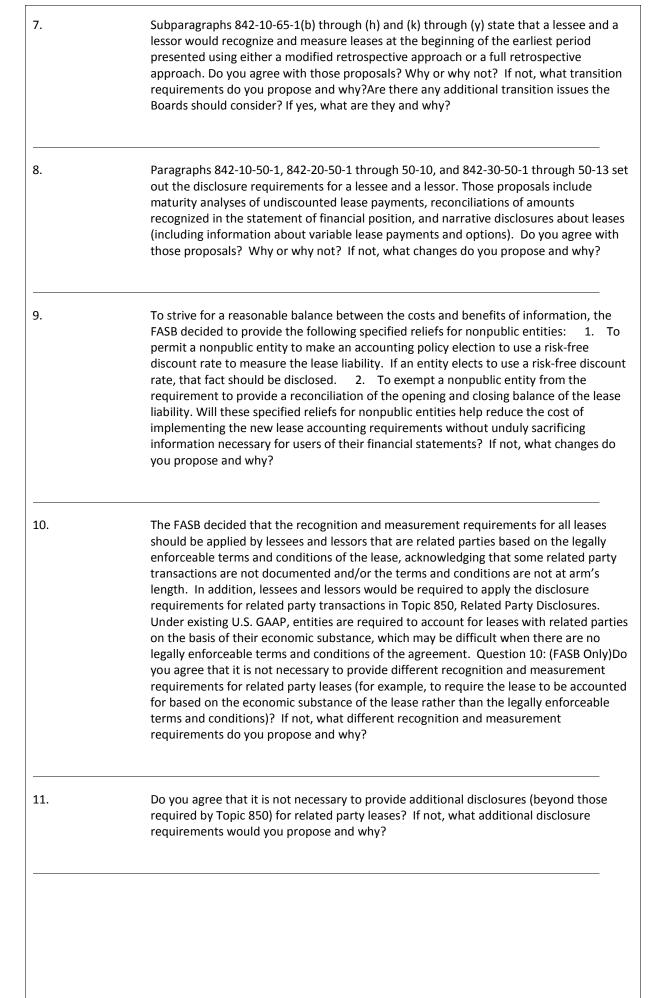
Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

5: Lease TermDo you agree with the proposals on lease term, including the

and why?

6.

reassessment of the lease term if there is a change in relevant factors? Why or why not? If not, how do you propose that a lessee and a lessor should determine the lease



12.

The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40, Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property. Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

Additional comments - updt.

Please provide any additional comments on the Invitation to Comment:

Additional comments - process.

Please provide any comments on the electronic feedback process: