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September 5, 2013

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Leases – Topic 842 Proposed Accounting Standards Update (Revised), Issued: May 16, 2013

Dear Chairman Golden and Chairman Hoogervorst:

Thank you for allowing us the opportunity to respond and provide comments related to the Lease Exposure Draft ("ED"). We would like to provide our areas of concern or where we believe further clarification may be needed. We also have included our responses to the questions that were included in the ED as an attachment to this letter.

CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration. We are a mission-based lender with authority to make loans and provide related financial services to eligible borrowers in the agribusiness and rural utility industries, and to certain related entities, as defined in the Farm Credit Act. Farm Credit Leasing Service Corporation (FCL), a wholly-owned subsidiary, provides lease-related products and financial services to Association partners, agribusinesses, agricultural producers and rural infrastructure companies. As of December 31, 2012, FCL had $2.1 billion in leases outstanding.

One of our greatest concerns is related to the complexity of certain items in the ED and the impact it will have on our customer lessees. Many of our lessees are small, independent agricultural entities that do not have the accounting and/or systems capability to implement sophisticated and complex accounting rules. Additionally, most of our lease volume is small ticket, lower risk and generally not long term (3-5 years). This proposal would cause a significant amount of work for our lessees with minimal benefit. The inability to account for leases under the new methodology could have an adverse business impact on many smaller entities that rely on leasing to operate their business.

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It appears the main focus of the proposal is to capitalize all lessee operating leases (or at least recognize the present value of the operating lease) in both the assets and liabilities of the financials. As a result, both the lessee and lessor would potentially have a lease asset reflected on their balance sheet. Income and expense recognition is determined based on the nature of the leased asset and the lessee's consumption of that asset, and therefore the recognition method could vary. Lessee and lessor recognition would likely not be symmetrical or truly represent the economics of their leasing transactions. In addition, for financial institutions, there is uncertainty with regard to how regulators would treat this additional asset for risk weighting for capital ratio purposes.

The differentiation between Type A (Personal Property) and Type B (Real Property) and the different rules that impact each also seems unduly complex. Further, the requirement to re-assess the lease term is a significant change from current practice. This will require judgment and detailed systems and processes to be able to monitor the need to re-assess.

Lastly, we would propose not changing any of the rules for lessor accounting at this time. The ED has addressed the most pressing issue – bringing operating leases onto the balance sheet – and there is no compelling reason to change lessor accounting.

Again, thank you for the opportunity to provide our comments on this Exposure Draft.

Sincerely yours,

Colette M. Ruff
Director of Accounting, CoBank ACB

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Question for Respondents:

Question 1: Identifying a Lease

This revised Exposure Draft defines a lease as —a contract that conveys the right to use 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 reflect the economics of the transaction.

CoBank generally agrees 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.

Question 2: Lessee Accounting

Do 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?

CoBank would request the Board provide additional guidance around what is considered “insignificant” if the ED remains unchanged. CoBank believes the treatment of leases should be based on the classification as either a capital lease (based on ownership of asset) or an operating lease (based on right to use the asset) and not based on whether it is property or real estate (Type A or Type B, respectively). We believe the nature of the lease (capital versus operating) should dictate the accounting and that the separate accounting for Type A and Type B adds unnecessary complexity in terms of the amortization and the determination of the discount/interest. More guidance should be provided on how to assess the appropriate discount rate. Additionally, treating all leases the same would have negative consequences for many lessees (e.g. cost basis, debt covenants) and would not give analysts and investors the transparency that is required, particularly as it relates to bankruptcy. If the intent of this ED is to capitalize operating leases on the lessee’s balance sheet at present value, that is achieved with the guidance in the draft. However, the P&L impact should reflect the economics of the operating lease, which is straight-line over the life of the lease.

Question 3: Lessor Accounting

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?

Again, should the ED remain unchanged, CoBank would request the Board provide additional guidance around what is considered “insignificant”.

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Question 4: Classification of Leases

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?

CoBank does not think the underlying asset should impact the accounting treatment of a lease, but rather the lease should be based on the business impact of the leased asset.

Question 5: Lease Term

Do you agree with the proposals on lease term, including the 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 term and why?

We believe that determining the initial lease term at inception is appropriate. We ask the Board to provide more guidance and clarification around the options to extend or terminate a lease, and other relevant factors for determining when the lease term needs to be re-assessed.

Question 6: Variable Lease Payments

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?

CoBank is in agreement with the treatment of variable lease payments.

Question 7: Transition

Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If not, what transition requirements do you propose and why?
Are there any additional transition issues the Boards should consider? If yes, what are they and why?

It is our hope that the Board will consider grandfathering existing leases or at least those that have less than 12 months remaining. Significant historic information on existing leases will be needed as the ED is currently written so we would suggest the Board provide more clarity and ease the transition regarding existing leases. As noted above, we have concerns over whether some of our smaller leasing customers will be able to comply. CoBank is concerned about the lessor changes for leases previously recognized as operating leases. It seems that the balance sheet would be misleading to readers to derecognize an asset; adjust it for previously recognized payments; and show a lease receivable for the remaining lease payments.

Question 8: Disclosure

Paragraphs 842-10-50-1, 842-20-50-1 through 50-10, and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

The disclosure requirements will be very burdensome for smaller, less sophisticated lessees and may produce results that are not in line with what the Board is envisioning. The disclosures detailed in Section 842-20-50-3 will result in generic information due to the fact that many lessees are involved in a wide array of lease transactions. The reconciliation required for both Type A and Type B in 842-20-50-4 for public entities is very complex and could result in too much information that will not be utilized by readers and investors.

Question 9: Nonpublic Entities (FASB Only)

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To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for nonpublic entities:
1. To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.
2. To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.

Will these specified reliefs for nonpublic entities help reduce the cost of implementing the new lease accounting requirements without unduly sacrificing information necessary for users of their financial statements? If not, what changes do you propose and why?

This will be a significant help to non-public entities.

Question 10: (FASB Only)
Do you agree that it is not necessary to provide different recognition and measurement requirements for related party leases (for example, to require the lease to be accounted for based on the economic substance of the lease rather than the legally enforceable terms and conditions)? If not, what different recognition and measurement requirements do you propose and why?

CoBank believes the treatment of leases should be based on the classification as either a capital lease (based on ownership of asset) or an operating lease (based on use of lease asset). If more information is desired for related party leases, we believe that should be included as a disclosure only.

Question 11: (FASB Only)
Do you agree that it is not necessary to provide additional disclosures (beyond those required by Topic 850) for related party leases? If not, what additional disclosure requirements would you propose and why?

We do not feel it is necessary to provide additional disclosures. If there is a material related party lease, it would be included in an entity's related party footnote.