MORTON ALAN HAAS & CO.

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CERTIFIED PUBLIC ACCOUNTANTS
FOUNDED 1949

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MORTON ALAN HAAS, C.P.A. (1921-1995)

September 2, 2013

Technical Director
Financial Accounting Standard Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856

Re: Reference Number 2013-270

Ladies and Gentlemen:

Please find attached comments to the above referenced exposure draft.

Thank you for allowing us to be part of the standard setting process.

Very truly yours,

MORTON ALAN HAAS & CO.

MICHAEL C. HAAS

MCH/mf Encls.

September 2, 2013

FASB Exposure Draft on Lease Accounting

Problems with pending standard:

- 1) Creates an asset on the balance sheet to which the entity does have legal title.
- 2) Overstates the total assets of an entity which is the better evil: overstating assets or overstating liabilities? By creating an non-existent asset seems in conflict with prior FASB Concepts Statements.
- 3) Lease obligations already are disclosed in the Notes to the financial statements why is there a need to confuse the balance sheet by creating a "right to use" asset that disappears over the life of the lease? Now the disclosure will be even more complex as the entity will have to disclose the lease and then reconcile the assets/liabilities remaining on the balance sheet as of the date of the balance sheet; and reconcile the expense accounts affected during the period of operations being reported on.
- 4) It blows loan and other financial covenants.
 - a. Certain entities for example, HUD reporting entities and licensed independent escrow companies in California have to maintain certain fiscal requirements relating to tangible net worth and liquidity.
 - b. These new rules would instantly blow the requirements of HUD and of California state law by adding liabilities that had not existed before.
 - c. Lenders will have to re-write loan covenants as entities they loaned to under restricted limits no longer will meet specific ratios or dollar limits of debt.
- 5) Will add to the time needed to report properly on financial statements
 - a. Will have to analyze leases
 - b. Will have to evaluate annually the reporting of the right to use asset and the lease obligations on the balance sheet and the expense on the income statement and in the disclosures
 - c. An onerous cost that most non-publically traded entities cannot afford
- 6) Will motivate many entities to negotiate leases in such a way to avoid application to the standard.
- 7) Implication of the standard requiring immediate application, not prospective for all leases signed after the effective date is another onerous burden to require entities to bring all leases up to date by bringing on the remaining unamortized right of use asset and the remaining lease liability as of the effective date.
- 8) Any sooner than later effective date would make it next to impossible or so costly for most non-publicly traded entities to comply.
- 9) The dual recognition approach ironically amplifies the complexity of the proposed standard.
 - a. Creates the concept of "more than insignificant" which is almost a double negative to start with; and who makes the decision of what is and what if the firm reporting on the financial statements disagrees with the entity's decision?
 - b. What is the lessee is the only tenant in the building; isn't that a consumption of more than a significant portion of the asset?

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- c. What about a lease for which "more than an insignificant" portion of the asset is consumed but the entity retains use of the asset after the lease?
 - i. Does the entity "re-book" the asset for FMV buy-out value?
 - ii. What if the entity can company continue the lease on a month-to-month basis after the original term of the lease expires?
- d. The complexity and the problems in reporting and even only a few examples noted above apply to both types of leases described in the dual recognition approach.
- e. The bifurcation into two types is a rationalization on forcing the standard to work in trying to deal with what had traditionally been operating versus capital leases in the past.
- 10) The standard in its exposure draft form provides little, if any, guidance on how it is to be applied. The standard talks about generalities and little specificity. It provides motivation, and will provide more if it becomes effective, for entities to create and to generate and to negotiate leases and contracts that will fall below the effective threshold of the standard so entities can use exceptions to carve themselves out of application.
- 11) It was reported back in 2012 that the motivation for the standard came from IASB and then that was back-tracked in 2013 as the reason being it was necessary to bring clarity to investors. So there is not even consistency as to the message being delivered as to the necessity of the change.
- 12) This standard does not bring clarity to anyone it brings confusion. The facts that there is a new exposure draft and that there is non-consensus of the FASB (4-3 vote on the dual recognition approach) and that there is no effective date set because of the on-going uncertainty of the comments coming in on the exposure draft show how not only unpopular this standard is, but of its complexity in concept and of its tenuousness in application. There are a lot more non-public entities that will have to make sense of this standard than there are publicly traded entities. And even of the publicly traded entities, many of those have no international concerns.