NATIONAL ASSOCIATION OF
Manufacturers

Christina Crooks

Director, Tax Policy
Tax and Domestic Economic Policy

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Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

The Honorable Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
United Kingdom

Re: FASB Project No. 2013-270, Accounting Standards Update, Leases (Topic 842)

Dear Chairman Seidman and Chairman Hoogervorst:

On behalf of the National Association of Manufacturers (NAM), I appreciate the opportunity to provide comments on the FASB and IASB Exposure Draft of proposed Lease Accounting Standards issued May 16, 2013, and to express our concerns with the potential negative impact of the proposal on manufacturers.

The National Association of Manufacturers (NAM) is the largest manufacturing association in the United States, representing small and large manufacturers in every industrial sector and in all 50 states. Manufacturing employs nearly 12 million men and women, contributes more than $1.8 trillion to the U.S. economy annually, and has the largest economic impact of any major sector and accounts for the lion's share of private-sector research and development. The NAM is the powerful voice of the manufacturing community and the leading advocate for a policy agenda that helps manufacturers compete in the global economy and create jobs across the United States.

Investing in plants, property, and equipment is vital to the manufacturing industry. These investments allow manufacturers to build new products, expand their businesses, create jobs, and spur economic growth. It does not always make financial sense for a manufacturer to own a piece of equipment or property outright. For example, some manufacturers—particularly smaller companies—may not be able to raise the capital necessary to make such large permanent investments. Instead, these companies lease capital assets. In many cases, leasing has provided the companies with the flexibility to invest in needed assets.

Consequently, any change to lease accounting rules will have an impact on manufacturers and the way they conduct their businesses. Currently, operating leases do not result in debt on the lessee's balance sheet and expenses are recorded on a straight-line basis instead of recognizing the front-loaded expense of financing an asset purchase.

The Exposure Draft however, would require companies to capitalize nearly all leases on the balance sheet and changes to income statement recognition would vary based on the type of leased asset. Specifically, Type A leases, i.e., leases of equipment and non-property assets would be reported on a front-loaded basis with the expense allocated between interest and amortization while expenses for Type B leases (most property leases) would be reported on a straight line basis.

This dual model approach would add unnecessary complexity and costs to leasing transactions. Moreover, this approach would not necessarily reflect the economic nature of the asset leased. Specifically, manufacturers are concerned that the new classification model based on the type of asset leaves room for subjectivity in determining what comprises a Type A versus Type B lease, and could lead to different accounting treatment for similar transactions across varying industries.

Companies that may not have many combinations of both operating and capital leases under current accounting rules would likely see an increased combination of Type A and Type B leases under the new model. In terms of costs, a manufacturer leasing industrial equipment (under Type A) would face a front-ended cost increase in the first year of the lease when interest expense is the highest that could force the business to cut back on other investments.

The lease accounting changes also would result in implementation and ongoing compliance costs that would add additional burdens to manufacturers during a period of sluggish economic growth. For example, businesses would have to conduct a significant review of all existing leases to determine what must be recorded on the balance sheet and income statement in accordance with the new accounting rules.

Since the new accounting rules would be retroactive, manufacturers would be forced to divert resources to reevaluate existing leases. Companies also would face ongoing costs as the new lease accounting rules would make changes to existing processes, systems, and internal controls. Companies could also face tax consequences as a result of the proposal.

On balance, manufacturers believe that the instead of providing transparency of operating lease liabilities and truly reflecting economic activity, the Exposure Draft would force companies to shift their current practices to avoid the complexities created by the proposed lease accounting changes. In short, the costs of this proposal would outweigh the intended benefits.

NAM members appreciate the opportunity to comment on the Exposure Draft. We remain concerned that the complexities and costs created by the proposed lease accounting standard would have a detrimental impact on manufacturers, their business and investment decisions, and economic growth. Manufacturers encourage FASB and IASB to conduct a robust cost-benefit analysis before finalizing the proposal.

Sincerely,

Christina Crooks

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Director, Tax Policy