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IVORY

Pricing INTELLIGENCE at Work

September 13, 2013

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

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

Submitted via electronic mail to: Technical Director, File Reference No. 2013-270 at director@fasb.org

RE: File Reference: No 2013-270, Exposure Draft: Leases (Topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)

Dear Sirs,

Ivory Consulting Corporation (Ivory) appreciates the opportunity to respond to the request for comments from the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) on the proposal contained in the FASB Exposure Draft, Proposed Accounting Standards Update: Leases Topic 842 (herein the ED or the Exposure Draft).

Ivory has been providing lease pricing and accounting software and consulting services to the equipment leasing industry since 1983. Our products are known as SuperTRUMP and SuperTRUMP Portfolio Intelligence. Our clients include most of the major equipment leasing companies in the U.S. Their transactions range from extremely complex leveraged leases to hundreds of thousands of small ticket leases.

Based upon 30 years of developing lease pricing, accounting and analytical software, Ivory is uniquely qualified to understand the economics of lease pricing and analysis and the impact of accounting rules thereon. For the last several years, we have been helping our clients implement risk-based pricing, and we have added risk-based pricing functionality to our software products. Fully understanding the risk associated with a deal at any point in time over the life of a lease involves examining factors beyond the transaction's cash flows in order to comprehend the underlying reality of the transaction. An accounting model should have the same goal – to go beyond the cash flows and present the reality of a lease transaction on the financial statements. While the Exposure Draft is a step in that direction, we believe that it must be significantly modified so that lessors and lessees can accurately present the reality of a lease transaction in their financial statements.

Because we have developed and modified our software applications and integrated them into other software applications for 30 years, Ivory understands the effort and costs related to updating software systems for changes in accounting rules. For any accounting change, there will be incremental one-time costs, as well as on-going incremental costs, as software and information technology systems are modified and maintained. Using the ED, we have updated our software to reflect the proposed accounting rule changes for lessors. We have created tables which show the differences between today's accounting rules and those in the ED, again for lessors. This work has helped us understand the effects of the proposed rules on the financial position of both lessors and lessees.

We are not a lessor; we are a software service provider, or vendor, to lessors. We have minimal involvement with lessees. Therefore, our comments on the ED are limited to our view of the ED's impact upon lessors.

We do not support the ED with respect to the proposed changes to lessor accounting. This is based upon our view that the estimated benefits to be derived from changing lessor accounting do not outweigh – by a significant margin – the estimated costs of compliance.

The following comments address the types of costs—both one-time and ongoing--which most likely will be incurred by lessors in order to comply with the ED. These costs include software and IT infrastructure costs as well as incremental business costs resulting from compliance with the ED.

Software Costs – Lessor

As a supplier of pricing and accounting software and consulting services to lessors, we are aware that the changes proposed in the ED will require every lessor to implement revised pricing, accounting, and lease management software. These software applications will have to be re-coded by their software providers. Some software providers will perform the re-coding for free; others may charge for it. Some software providers will put the new code in all older versions of its software; others may only put it into the most recent version of their software thus forcing their customers on older versions to upgrade to the most recent version.

In the majority of cases, upgrading to a new version of software involves costs such as external consultants and/or employees performing the software implementation, testing, training, and re-creating interfaces to other software applications. These types of costs are incremental one-time costs unless a software vendor increases its annual maintenance fees because of a software upgrade caused by uptaking the software update for accounting.

The disclosure requirements in the ED require lessors to maintain two versions of their software: one for the current accounting rules and another one using the new accounting rules, in order to present comparative numbers. The IT infrastructure and employee costs of running two software versions, maintaining interfaces and reporting capabilities are annual incremental costs over the comparative reporting period.

Taken together, these costs could represent a significant increase in a lessor's IT spending during the transition period. For smaller lessors, the percentage increase in annual IT spending could be, indeed, a significant percentage of their annual spend.

Other Costs - Lessor

Ivory, along with two lessors, investigated and documented the various costs of complying with the ED that lessors could potentially incur—both one-time and ongoing. We believe there are many: direct, indirect; obvious, hidden. Given the large number of these costs and their potential magnitude, we question whether the cost of adopting the ED outweighs the benefits. Our investigation and documentation of these costs was summarized in the article "The Hidden Costs of the Lease Accounting Proposal: Is Your Business Prepared?" published by the Equipment Leasing and Finance Association in the July/August/September 2013 edition of Equipment Leasing & Finance.

The relevant points in that article are summarized below for your convenience:

Easily Identifiable Potential Costs

Software Updates
In general, systems that employ a more configurable and flexible design should be able to support required changes in the least disruptive and most cost-effective manner. However, if a lessor is operating on older software, adopting the proposed changes may be more complicated, and expensive. One concern each lessor will have is whether or not its software provider has the ability and commitment to deliver the required modifications in the required time frame.

The less obvious activities and potential costs include updating ancillary reporting systems, such as business intelligence systems, and databases, as well as general ledger and credit reporting systems.

Professional Fees and Temporary Help
Lessors will need to be prepared to engage various consultants for a variety of specialized skills, such as lease accounting, process documentation, system development, etc., as well as to hire temporary help to research lease documentation and perform restatement analyses.

Potential Hidden Costs

Staffing
The potential costs of staff re-assignment to the accounting update effort, which could extend for the next three or more years, are more significant than the potential cash expenditures discussed above. Some lessors may have to hire temporary staff for the project to assist or replace their experienced staff. Personnel at other lessors will simply focus less on normal activities. Given that some of these normal activities are revenue producing, the opportunity costs could be very large.

Technical Accounting Education
Conversion project team leaders will need to be educated on the new rules and their implications. Departmental specific educational materials may be necessary to convey the meaningful impacts to the specific departments. The key effort is to determine how the change will impact what lessors do today. A thorough understanding of the rule changes and their application (as well as how the rules are applied today) is essential in identifying the compliance requirements across the enterprise. Certain team members may need to collaborate with their internal accounting standards and policy groups, internal and external auditors, regulators and software providers to obtain agreement on how the new rules should be applied, and how that application drives software and IT infrastructure changes.

IT Modifications and System Changes
Many of the larger software providers have multiple lessor customers whose compliance requirements will be similar. However, for those requirements that do not match, specific company advocacy may be required to ensure the software vendor delivers upgraded software that fits each lessor's interpretation of the new rules.

Once a lessor has verified that the software revisions being proposed meet the new accounting rule's requirements, the modified version must effectively interface with other previously integrated software. The modified software will require testing and validation prior to rollout, which usually can happen only during certain times of the year. Updates to multiple connected software packages must be carefully synchronized.

Processing and Operational Changes
Second in importance to accounting and reporting, the most affected business function is lessor operations. Just as software needs to be modified to fit the new standard, so do the processes that book, monitor, and terminate transactions and dispose of assets. Required activities include rewrites of process flowcharts, internal controls, policies and procedures.

Controls
As processes change, key controls will need to change as well. Internal audit staff will need to be trained and will likely need to alter their testing procedures.

Staff Training
The most effective training involves the development of custom tailored training materials. The development of these materials is an incremental cost.

Internal and External Reporting
Reporting issues are often left as the last task in system upgrades, yet can consume resources for an indefinite period of time. Both internal and external reporting will need to be addressed.

Modifying Lessor's Financial Products for Lessee Needs
Understanding the impact of the accounting changes on the lessee, and reviewing a lessor's suite of financial products in light of the lessee's position, is likely to be a crucial component of a lessor's "go to market" strategy during the transition period. Writing new lease documentation, producing new marketing materials, creating new financial products and modifying existing ones will not only consume staff time, but could be costly should legal counsel be needed.

Lessee Education
Lessees are interested in knowing the effects of the new accounting rules, but generally have been staying on the sidelines to date. Soon there will be a rush for information, and lessor sales teams need to be ready. Just as with lessors, the impact of the new accounting rules upon lessees will be more far-reaching than many lessees now realize.

Cost Versus Benefit Considerations -- Lessor
Many lessors believe that the ED does not produce true benefits to the financial reporting system. This is especially true with respect to lessor accounting, in our opinion. As an example, the proposed R&R method is believed by many lessors to be only "cosmetically" different from the DFL method in use today. However, adoption of the R&R method will require a lessor to incur the software, IT infrastructure and business costs discussed above.

Many lessors operate small-ticket businesses which succeed only if the lessor can quickly book deals while enjoying very low operating costs. If their software, IT infrastructure, and other costs increase from adopting the ED, and if very low operating costs can no longer be achieved, then these lessors may no longer be able to offer a competitive price, and their customers may no longer lease from them.

In our opinion, the direct and indirect costs as described herein, as well as the unintended consequences of the proposed lessor accounting rules, are significant. In contrast, these costs would be reduced to a *de minimis* amount if the ED were limited only to lessee accounting changes, where there may be benefits to changing.

To our knowledge, no one has prepared a study which would attempt to estimate the level of lessors' incremental costs. As a software vendor, we believe they would be significant. The industry would benefit from an assessment of them. We would advocate for an assessment before a final decision is made.

In Conclusion

Our comments support the overarching goal of sound accounting, which is to ensure that users of financial statements obtain a fair understanding of a particular company's financial position. We hope that our comments have directed your attention to the software and IT infrastructure costs expected to be incurred in both year one and in subsequent years, as well as the many other costs that lessors are expected to incur in order to comply with the ED.

We believe that the costs of these changes far outweigh the potential benefits, and respectfully ask you to reconsider the Exposure Draft with respect to lessor accounting rules.

Thank you for considering our comments.

Sincerely,

Scott A Thacker

Scott A. Thacker, CPA (inactive)
Chief Executive Officer