2013-270
Comment Letter No. 285

September 13, 2013

Technical Director
Financial Accounting Standards Board
Via email to director@fasb.org

RE: File Reference No. 2013-270: *Leases (Topic 842)*

Dear Director:

The Accounting and Auditing Committee of The Ohio Society of CPAs is pleased to comment on the above-referenced exposure draft. The OSCPA committee represents CPAs in public practice and in business, across a range of industries and sizes of organizations.

In general, the committee agrees with the underlying principles of the draft in recording a liability for most lease obligations and recognizing a right-of-use asset. The committee had concerns about the degree of judgment required in the proposal, particularly in the areas of lease identification and classification and recommends additional clarification in a number of areas, as outlined in the questions below.

1. *Identifying a Lease:*

   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.

   We agree with the definition of a lease as presented. We agree that the criteria of the right to control the use of the identified asset is an appropriate criteria; however, distinguishing between the parties' ability to direct the use of the identified asset is an area that will require significant judgment in many scenarios, and in which we believe additional application guidance is necessary.

   We believe that there will be incentive for vendors and organizations to try to structure agreements so that they meet the definition of a service agreement rather than a lease (for example, a "computing service".) Additional clarity on identifying these "in substance leases" would be beneficial.

   Examples in the proposal best apply to consideration of a new asset. In an environment including a variety of asset types and both new and used assets, an initial lease assessment could result in a wide variety of classifications, assessments of ability to control, estimates of economic life, and estimates of the portion of economic benefit expected to be consumed. Without more “bright lines” in these definitions, we expect a wide variety of application in practice. We recommend that the FASB closely consider whether the proposed identification and classification definitions can be consistently applied and interpreted, and where too great a degree of judgment is required, to provide additional guidance to prevent inconsistencies in application and practice interpretation.

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 lease 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?

   We agree with the definition and accounting treatment for short-term leases, and agree that the economic purpose for all leases will differ; therefore, different accounting treatment is appropriate. We agree that property should receive the “Type B” treatment proposed. For leases of assets other than property, a consumption model will be complex to interpret and apply. We anticipate inconsistencies with this definition in how assets within a similar asset type and used for similar purposes will be classified (see response to Question 1.)

   Type A’s accelerated expense recognition reflects an assumption that the purpose of the lease is a financing alternative. Accordingly, a more accurate basis of classification may be based upon the underlying economics: the degree to which rights and risks of ownership are assumed (a financing alternative to a purchase,) versus a rental without the assumption of full ownership rights and risks.

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?

   We agree with the approach for lessors being consistent with that for lessees. As noted above, without additional guidance on interpreting the definitions, we expect wide divergence in application, including a lessor potentially interpreting factors differently from the lessee. For both the lessor and lessee, recordkeeping requirements will increase due to the required reassessment of inputs.

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 the paragraphs 842-10-25-5 through 25-8, which differ depending on the whether the *underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?*

See response to question 2 above.

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 agree with the proposed definition of the lease term, and believe that it clarifies how to address mid-term renewals.

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?

   While we don't disagree with the proposed measurement of variable lease payments, we found that the complexity was sufficient incentive to avoid structuring a lease based on an index (i.e. the accounting treatment will impact business decisions rather than the underlying economics.)

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?

   We agree that requiring full retrospective application would be too costly compared to the benefit provided, and support providing a modified retrospective alternative.

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 proposal 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 included in the proposed standard are fairly lengthy and comprehensive, begging the question of “Will most people understand them?” This is partially driven by the complexity of the differential lease definitions and approaches. While we agree in principle with the purpose of the disclosures, due to the complexity and volume of disclosures required, we strongly encourage the FASB to evaluate and “field test” these disclosures in a practical environment in order to confirm that the full disclosures meet a cost/benefit assessment and to further streamline them where possible.

9. *Nonpublic Entities:*

   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 to you propose and why?

   We agree that these exceptions are appropriate for nonpublic entities, but do not expect that they will provide significant relief from the costs of implementing the new standard.

10. *Related Party Leases:*

    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?

    We agree that it is not necessary to provide different recognition and measurement requirements for related party leases.

11. *Related Party Leases:*

    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 believe the requirements in Topic 850 are sufficient.

We appreciate the opportunity to comment on the Proposed Accounting Standards Update. If you have any questions about the committee’s discussions, please contact me at dsteward@battellecpas.com.

Sincerely,

Dan Steward

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The Ohio Society of CPAs