

September 13, 2013

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

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

Subject: Proposed Accounting Standards Update on Leases (Revised)

File Reference No. 2013-270

Dear Chairmen Golden and Hoogervorst:

The Alta Group wishes to comment on the Boards' Revised Exposure Draft, *Proposed Accounting Standards Update on Leases* (the RED). The Alta Group (Alta) is a worldwide consultancy serving financial services companies and manufacturers engaged in, among other things, equipment leasing. Our business is such that we are exposed to the daily operational challenges and opportunities of lessors and lessees on six continents.

Although qualified to address the more technical and theoretical accounting issues associated with the RED, Alta has chosen to focus our comments on the practical consequences associated with these changes. These comments will consist of a general observation and our thoughts on several specific issues.

### Overall observation

Alta agrees with the Boards' position that putting the lessee's obligation to pay on the balance sheet provides investors with better information. We do not, however, see any additional informational benefit from the other aspects of the RED, which essentially trades one set of workarounds and analyses for another, more complex set; one, in fact, that requires that even more assumptions be made.

Analysts and sophisticated users of financial statements currently understand lease accounting and have mechanisms in place to determine the impact of leases on a business, so nothing is gained in the RED for those constituents. Additionally, they will be forced to develop new analytical methodologies in order to parse the true nature of the lessee's leasing activities. In our opinion, other, less well-informed constituents will find the proposed rules to be even more inscrutable than those currently in place.

Furthermore, this trade results in increased disruption to business processes and adds costs to organizations already overburdened with increasing regulation. We believe a more workable and effective solution would be to leave many of the principles of IAS 17 intact and focus on enhanced footnote disclosures designed to provide better information regarding the nature of lease obligations and their impact.

# Specific issues

Our concerns with the consequences of specific elements of the RED are as follows, and are based on the underlying premise that not all leases are the same, either economically or legally.

### Classification

While we understand the genesis behind moving away from the current classification language, Alta believes the RED simply substitutes certain criteria (the classification tests of IAS 17) for other, equally rigid criteria. Furthermore, as the newly proposed criteria are designed to achieve conclusions similar to IAS 17 as to the nature of the lease, we question why they have been introduced.

Our primary concern in this regard is that lessors and auditors will default to the equipment/real estate designations of the Type A and Type B lease, respectively. The consequences of doing so will result, in some cases, in the misrepresentation of the lessor's business model. A rail car lessor, for example, that is an asset manager and operating lessor, may find itself characterized as a finance company based on the arbitrary distinction of the equipment/real estate test.

Alta suggests, therefore, that, rather than creating new lease classifications based on whether the lessee is consuming a significant part of the underlying asset, that the Boards retain the lease classification tests of IAS 17. In our opinion, the current classifications of operating and finance leases better reflect the underlying business model of the lessor and that nothing but additional confusion is to be gained by adopting the dual classification of the RED.

#### Presentation

It is our opinion that the Boards should designate certain right of use (ROU) assets, such as operating leases under the current model, as intangible assets. Whereas, an investor may take comfort in knowing that the airplane in which he is flying is on the balance sheet, we are concerned that that same investor may be under the misguided impression that the airplane also is available for liquidation in order to meet other obligations of the lessee.

In the example of the airplane, under bankruptcy law (in the US, specifically), the lessor has the right to the airplane in the case of a true operating lease. This right includes the ability to repossess the asset if the lessee is unable to meet its obligations going forward. Nowhere in this scenario does the investor benefit from the implied liquidation right of an ROU asset presented as a tangible asset. This treatment is analogous to that of leasehold improvements, which also are assets in which the lessee has no rights of ownership.

# Lessee expensing

It is Alta's opinion that the arbitrary designation of equipment leases as Type A leases will, similar to our prior points under 'Classification', create misinformation as to the true nature of a lessee's financial asset acquisition strategies and models. The Boards' proposal to require an interest and amortization expense profile in the income statement for virtually all equipment leases treats all equipment leases the same, in spite of their varied nature.

Again referring to the airplane example, many airlines lease aircraft on a relatively short-term basis as they react to changing market demands and competitive pressures. These leases truly are viewed as rentals from an operational point of view and do not represent financings.

Under the RED, a 12-month lease, with a commercially necessary renewal option, would be viewed as consisting of an interest and amortization component in the lessee's income statement. By not recognizing a rental expense, the airline is forced to misstate its operating methodology.

As in our recommendation for lessors, Alta suggests that, for expensing purposes in the financial statements of the lessee, the Boards retain the lease classification tests of IAS 17.

Thank you for your time and consideration in reviewing this letter. The Alta Group greatly appreciates the Boards' openness and willingness to consider all views.

Sincerely,

Shawn Halladay Managing Director

The Alta Group