SENSIBA SAN FILIPPO

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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Comment Letter No. 394

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Technical Director, File Reference No. 2013-270
Financial Accounting Standards Board
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Norwalk, Connecticut 06856-5116

Sent via e-mail to director@fasb.org

Sensiba San Filippo LLP is pleased to have the opportunity to respond to the FASB's Exposure Draft on Proposed Accounting Standards Update – Leases (Topic 842): a revision of the 2010 proposed FASB Accounting Standards Update, Leases, issued May 16, 2013.

Sensiba San Filippo (www.ssfllp.com) is a public accounting firm serving middle-market companies in the San Francisco Bay Area, the majority of which are privately held corporations. We have 14 partners and approximately 90 employees. We perform a full range of assurance and tax services. Below is our response to the questions in your exposure draft.

Question 1: 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.

Response: *We agree with the proposed definition of a lease and the proposed requirements for identifying whether a contract contains a lease.*

Question 2: 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 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?

Response: *We agree that the recognition, measurement and presentation should differ for different types of leases depending on the significance of economic benefits consumed over the lease life. For this purpose, we also believe that leases that are less than 12 months but have an option to extend should include the option period if there is economic incentive to do so (or an economic hardship not to do so). Absent the presence of incentive or hardship, leases less than 12 months should be allowed to use "short term lease" accounting.*

Question 3: 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?

Response: *We agree that lessors should apply a different approach to different leases for the same reasons as stated above for lessees and additionally to create continuity in the accounting approaches for both lessees and lessors.*

Question 4: 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 in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

Response: *We agree with the ASU's principle that the lessee's expected consumption of the economic benefits embedded in the underlying asset should drive the income statement classification of the expense. Leases of property generally do not consume a significant portion of the economic benefits of an underlying asset and therefore can be likened to rent expense whereas leases of assets other than property, assuming a significant portion of benefits is consumed, more closely resembles an asset purchase which is financed, thus making amortization and interest the appropriate classifications.*

Question 5: 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?

Response: *We agree with the proposals on lease terms provided the changes in relevant factors have a significant impact on the lease. Reassessment of the term for changes that are not significant to the future cash flows of the lease create unnecessary complexity and the costs generally outweigh the benefits to both preparers and users of the financial statements.*

Question 6: 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?

Response: *We agree with the proposals on measurement of variable lease payments provided the changes in index or other applicable rates have a significant impact on the lease. Reassessment of the payments for changes that are not significant to the future cash flows of the lease create unnecessary complexity and the costs generally outweigh the benefits to both preparers and users of the financial statements.*

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Question 7: 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?

Response: *We agree with the proposals relating to the transition requirements in terms of giving preparers a choice between the full retrospective and modified approach so as to determine which method will be the most cost effective and relevant to the users of the financial statements. We do not agree with requiring the restatement of earlier periods for leases whose term runs out prior to the implementation date (or for leases that do not meet a certain materiality threshold) as this create unnecessary complexity and the costs generally outweigh the benefits to both preparers and users of the financial statements.*

Question 8: 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 proposals 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?

Response: *We agree with the disclosure requirements proposed as the future cash flows associated with the future maturities is highly relevant to users as is the narrative about terms such as variable payments and options. Additionally, we appreciate the provision to exclude the reconciliation for non-public entities.*

Question 9: To strive for a reasonable balance between the costs and benefits of information, the FASB decided to provide the following specified reliefs for non-public entities:

1. To permit a nonpublic entity to make an accounting policy election to use a risk-free discount rate to measure the lease liability. If an entity elects to use a risk-free discount rate, that fact should be disclosed.
2. To exempt a nonpublic entity from the requirement to provide a reconciliation of the opening and closing balance of the lease liability.

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 do you propose and why?

Response: *Yes, we believe these specified reliefs would reduce the cost and complexity of implementing the new requirements as companies would not have to calculate or obtain discount rates for leases and could instead elect to use the risk free rate which is readily available. Additionally, exempting non-public companies from providing a reconciliation of the lease liability will also be a cost saving as this reconciliation could prove rather difficult and burdensome for smaller less-complex entities. We recommend that the Board seek advice from the PCC on further non-public entity provisions that should be considered prior to publishing the final ASU.*

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Question 10: 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?

Response: *We agree that it is not necessary to provide different recognition and measurement requirements for related party leases. Where the related party lease has provisions other than fair value/market rates and terms, it is more likely than not the entity which is the lessor will be required to be consolidated under Topic 810-Consolidations thus eliminating the effect of the lease upon consolidation. Related party leases at fair value/market rates should be treated the same as non-related party leases due to similar terms and conditions.*

Question 11: 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?

Response: *We agree that it is not necessary to provide additional disclosures for related party leases as all relevant terms should already be disclosed under other relevant accounting standards.*

Question 12: Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

Response: *We agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property. The current language in IAS 40 refers to an operating lease therefore this will need to be modified to conform to the updated lease model language. Under IAS 40, operating leases (generally property) must be measured using the fair value model. This will present additional complexity for private company preparers therefore we would like to see a provision made to allow for use of the cost model as alternative accounting for private companies.*

Thank you for your consideration of our comments. You may contact Karen Burns at 925-271-8700 or kburns@ssfllp.com for any clarification or questions you may have regarding the above comments.

Sensiba San Filippo LLP